Registered Number : 2706333

Gaz de France ESS (UK) Ltd

Report and Group Financial Statements

31 December 2006

Registered No 2706333

Directors

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

Secretary

Mr D Park

Auditors

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

Bankers

Barclays Bank PLC
50 Pall Mall
London SW1A 1QF

Registered Office

1 City Walk
Leeds
West Yorkshire
LS11 9DX

Directors' report

The directors present their report and the group and company financial statements for the year ended 31st December 2006

Results and dividends

The results for the year ended 31st December 2006 are shown in the Income Statement on page 8 The profit for the year after taxation was £3,039,000 (2005 £6,632,000 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 group are the generation, purchase, supply and management of natural gas and electricity to industrial and commercial customers

The result for the year reflects the group's investment in the growth of the business The increase in revenue has been achieved through the growth plans implemented over the past few years In terms of therms delivered gas sales increased by 5 4% in 2006 compared to 2005 In combination with the overall increase in wholesale market gas prices gas revenues increased by 39% year on year 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

Further to 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 group's gross profit increased by 165% to £27,149,000 (2005 £16,432,000)

The delivering portfolios of both gas and electricity customers remain strong and provide a firm foundation for the forthcoming year The group's net assets stood at £23,385,000 (2005 £20,326,000) Net current assets were £667,000 (2005 £4,360,000) including cash on deposit, at bank and in hand of £39,699,000 (2005 £30,934,000) Based on the results achieved this year and the continued support of the parent company, the directors are confident that the future prospects of the group remain good

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 group 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 Gas and electricity forward contracts are used for hedging purposes only and to provide greater certainty on future revenues and costs

The group'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 group'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

Directors' report

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

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 December 2006 were

Mr J C Depail (Chairman)
Mr E Stab
Mr L Renat
Mr B Brelle
Mr J Roncato
Mr M B Haestier
Mr T Le Quenven
Mr X Perret
Mr O Lecointe appointed 31st March 2006

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

Supplier payment policy

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

Disabled employees

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

Employees

The group places considerable value on the involvement of its employees and has continued its previous practice of ensuring effective two-way communication on matters affecting them as employees, and on various factors affecting the performance of the group This is achieved through both formal and informal meetings, together with a regular newsletter 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 group is committed to reducing its impact on the environment As part of this commitment the group 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

Directors' report

Auditors

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

Director' 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

28th 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, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements

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

Independent auditors' report

to the shareholders of Gaz de France ESS (UK) Ltd

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

We have audited the group and parent company financial statements (the "financial statements") of Gaz de France ESS (UK) Ltd for the year ended 31st December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense and the related notes 1 to 27 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, the 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 is not disclosed

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

Basis of audit opinion

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

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

Independent auditors' report

to the shareholders of Gaz de France ESS (UK) Ltd

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- 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

29th March 2007

Group income statement
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Revenue	2	1,337,027	1,054,250
Cost of sales		(1,309,878)	(1,037,818)
Gross profit		27,149	16,432
Administrative expenses - ongoing		(24,033)	(23,897)
- exceptional	4	-	(113)
Operating profit /(loss)	3	3,116	(7,578)
Finance income	6	781	677
Finance cost	7	(1,434)	(1,423)
Profit / (loss) before taxation		2,463	(8,324)
Tax credit	8	576	1,692
Profit / (loss) for the year attributable to equity holders of the parent company	24	3,039	(6,632)

Group 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 group other than the profit for the year ended 31 December 2006 of £3,039,000 (2005 – £6,632,000 loss)

Company 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 profit for the year ended 31 December 2006 of £3,436,000 (2005 – £2,683,000)

Group and company balance sheets

at 31 December 2006

		Group		Company	
	Note	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Non-current assets					
Property, plant and equipment	10	31,506	33,519	-	-
Intangible assets	12	6,014	5,872	-	-
Investments in subsidiaries	11	-	-	3,566	3,566
Financial assets	21	8,839	11,795	42,745	38,106
Total non-current assets		46,359	51,186	46,311	41,672
Current assets					
Inventories	14	2,857	829	-	-
Trade and other receivables	15	187,659	214,442	70,104	76,242
Financial assets	21	58,514	28,925	-	-
Current tax asset	16	1	1	-	-
Cash on deposit	17	22,500	13,300	-	-
Cash at bank and in hand	17	17,199	17,634	-	-
Total current assets		288,730	275,131	70,104	76,242
Current liabilities					
Trade and other payables	18	182,054	195,938	1	986
Current tax liability	16	-	-	-	-
Financial liabilities	19	103,214	68,925	44,700	40,000
Provisions	20	2,795	5,908	-	-
Total current liabilities		288,063	270,771	44,701	40,986
NET CURRENT ASSETS		667	4,360	25,403	35,256
Non-current liabilities					
Financial liabilities	19	22,939	34,545	14,100	22,750
Provisions	20	702	675	-	-
Total non-current liabilities		23,641	35,220	14,100	22,750
NET ASSETS		23,385	20,326	57,614	54,178
Capital and reserves					
Equity share capital	23	51,901	51,901	51,901	51,901
Retained earnings	24	(28,516)	(31,575)	5,713	2,277
TOTAL EQUITY	24	23,385	20,326	57,614	54,178

J C Depail
Director

28th March 2007

Cash flow statements

for the year ended 31 December 2006

	Note	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Operating activities					
Operating profit / (loss)		3,116	(7,578)	-	-
Adjustments to reconcile operating profit to net cash flows from operating activities					
Depreciation of property, plant and equipment		3,595	4,633	-	-
Amortisation of intangible fixed assets		1,146	1,848	-	-
Share-based payments		20	131	-	-
(Profit) / loss on disposal of property, plant and equipment		(15)	2	-	-
(Increase) / decrease in inventories		(2,028)	(752)	-	-
Decrease / (Increase) in trade and other receivables		(111,097)	(54,163)	10,717	(1,540)
(Increase) / decrease in financial assets		56,031	(40,720)	(4,640)	(38,105)
Increase / (Decrease) in payables		46,517	52,577	(2,127)	(355)
Increase / (Decrease) in financial liabilities		20,298	40,720	-	-
Increase / (Decrease) in provisions		(3,113)	5,284	-	-
Cash generated from operations		14,470	1,982	3,950	(40,000)
Tax received		576	1,655	-	-
Interest paid		(265)	(749)	-	-
Interest received		788	625	-	-
Net cash flows from operating activities		15,569	3,513	3,950	(40,000)
Cash flows from investing activities					
Proceeds from the sale of property, plant and equipment		15	-	-	-
Purchase of property, plant and equipment and intangible assets		(2,869)	(3,159)	-	-
Net cash flows used in investing activities		(2,854)	(3,159)	-	-
Cash flows from financing activities					
Proceeds from borrowings		38,000	40,000	-	40,000
Repayment of borrowings		(41,950)	-	(3,950)	-
Share-based payments		-	(98)	-	-
Net cash flows used in financing activities		(3,950)	39,902	(3,950)	40,000
Net Increase / (decrease) in cash and cash equivalents		**8,765**	**40,256**	-	-
Cash and cash equivalents at 1 January		**30,934**	**(9,322)**	-	-
Cash and cash equivalents at 31 December	**17**	**39,699**	**30,934**	-	-

Notes to the financial statements

at 31 December 2006

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

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

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

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

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 31st December 2006

The group and company financial statements are presented in Sterling (£'000)

Going concern

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

Basis of consolidation

The group financial statements consolidate the financial statements of Gaz de France ESS (UK) Ltd and its subsidiary undertakings drawn up to the 31 December

All intra-company balances, and transactions, are eliminated

Significant accounting judgements and estimates

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

Provisions

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

Estimation uncertainty

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

Impairment of Goodwill

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

Property, plant and equipment

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

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

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

Goodwill

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

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

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

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

Notes to the financial statements

at 31 December 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 and before being brought into use

Impairment of assets

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

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

Investments

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

Financial Assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Fair values

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

Trade and other receivables

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

Inventories

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

Cash and cash equivalents

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

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

Interest bearing loans and borrowings

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

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

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

Derecognition of financial assets and liabilities

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

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

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

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

Fair value hedges

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

Income Taxes

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

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

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

Revenue recognition

Sale of goods

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

Services

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

Finance Income

Revenue is recognised as interest accrues

Operating leases

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

Onerous contracts

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred

Pension costs

Contributions to the defined contribution scheme are recognised in the income statement in the period in which they become payable

Share-based payments

Equity settled transactions

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

Exceptional Items

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

New standards and interpretations not applied

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

Notes to the financial statements

at 31 December 2006

2. Accounting policies (continued)

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

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

Revenue

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

3. Operating profit / (loss)

The group operating loss is stated after charging

	2006	*2005*
	£'000	*£'000*
Change in fair value of certain wholesale purchase contracts	(26,633)	(40,720)
Change in fair value of amounts due to/from customers in respect of certain supply contracts	26,633	40,720
Depreciation		
owned assets	3,595	4,632
assets held under finance leases	-	-
Amortisation of Intangible assets	1,416	1,848
Gain/(loss) on disposal of property, plant and equipment	15	(2)
Fees paid to auditors for the audit of the financial statements	117	98
Other fees to auditors for taxation services	132	44
Operating lease rentals - property	513	421
- others	129	158

4. Exceptional items

	2006	*2005*
	£'000	*£'000*
Cost of restructuring and relocating continuing operations	-	(72)
Cost of employee share scheme	-	185
	-	113

Cost of restructuring and relocating continuing operations

During the year ended 31 December 2003, the company and certain of its fellow subsidiary undertakings moved their headquarters and operations from Telford to Leeds and the costs incurred have been charged to profit In 2005 the credit represents the release of provisions 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 Employees (including senior executives) were entitled to participate through a number of different schemes under which they received equity instruments in return for past services rendered to the company The charge recognised in relation to these schemes is shown in this note and detailed more fully in note 22

Notes to the financial statements

at 31 December 2006

5 Directors remuneration and staff costs

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

The monthly average number of employees (including directors) during the year was 173 (2005 - 160)

	2006	*2005*
	Number	*Number*
Sales and Marketing	54	48
Administration	119	112
	173	160

Directors emoluments and highest paid director	2006	2005
	£'000	*£'000*
Emoluments	185	163
Company contribution paid to defined benefit contribution scheme	-	-
Company contribution paid to parent company defined benefit pension scheme	21	19

	2006	*2005*
	Number	*Number*
Members of defined contribution scheme	-	-
Members of parent company pension scheme	1	1

Notes to the financial statements

at 31 December 2006

6. Finance Income

	2006 £'000	2005 £'000
Interest receivable for late payment	129	235
Bank interest receivable	652	442
	781	677

7. Finance cost

	2006 £'000	2005 £'000
Bank loans, overdrafts and other loans repayable within 5 years	251	386
On loans from group undertakings	1,156	986
Discount charge for decommissioning liability	27	51
	1,434	1,423

8 Taxation

(a) Tax credit

	2006 £'000	2005 £'000
UK corporation tax		
UK corporation tax on profits of the year	-	-
Group relief recoverable	(360)	(1,439)
Adjustments in respect of previous periods	(216)	(253)
Tax credit in the income statement	(576)	(1,692)

(b) Reconciliation of tax credit

	2006 £'000	2005 £'000
Profit / loss before tax	2,463	(8,324)
Profit / loss multiplied by standard rate of corporation tax of 30%	739	(2,497)
Adjustments in respect of prior periods	(216)	(253)
Tax effect of non-deductible or non-taxable items	610	578
Transfers to unrecognised tax assets	(1,709)	480
Tax credit	(576)	(1,692)

Notes to the financial statements

at 31 December 2006

8. Taxation (continued)

(c) Factors affecting future tax charges

The company has deductible temporary differences of £8,894,000 (2005 £12,984,000) and tax losses of £6,931,000 (2005 £7,356,000) to be carried forward indefinitely and offset against future taxable profits

A net deferred tax asset of £4,748,000 (2005 £6,102,000) in respect of deductible temporary differences and tax losses has not been recognised due to uncertainty of future taxable profits

9. Profit attributable to members of the parent company

The profit for the financial year dealt with in the financial statements of the parent company was £3,436,000 (2005 £2,683,000) As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the parent company

10. Property, plant and equipment

Group	*Long Leasehold Property*	*Plant & Machinery*	*Fixtures, fittings & office equipment*	*IT equipment*	*Motor vehicles*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Cost						
At 1 Jan 2006	1,216	34,214	1,740	1,528	35	38,733
Additions	-	1,299	28	255	-	1,582
Disposals	-	-	(45)	(28)	-	(73)
At 31 Dec 2006	1,216	35,513	1,723	1,755	35	40,242
Accumulated depreciation						
At 1 Jan 2006	40	2,833	1,228	1,105	8	5,214
Charge for the year	53	3,246	145	141	10	3,595
Disposals	-	-	(45)	(28)	-	(73)
At 31 Dec 2006	93	6,079	1,328	1,218	18	8,736
Net book amount						
At 31 Dec 2006	1,123	29,434	395	537	17	31,506

Notes to the financial statements
at 31 December 2006

10. Property, plant and equipment (continued)

Group	*Long Leasehold Property*	*Plant & Machinery*	*Fixtures, fittings & office equipment*	*IT equipment*	*Motor vehicles*	*Total*
Cost						
At 1 Jan 2005	1,277	37,983	1,479	1,026	49	41,814
Additions	6	1,530	261	522	-	2,319
Write down to NBV on transfer of assets	(67)	(5,215)	-	(14)	(14)	(5,310)
Disposals	-	(84)	-	(6)	-	(90)
At 31 Dec 2005	1,216	34,214	1,740	1,528	35	38,733
Accumulated depreciation						
At 1 Jan 2005	55	4,189	1,061	662	12	5,979
Charge for the year	52	3,943	167	461	10	4,633
Assets transferred at NBV	(67)	(5,215)	-	(14)	(14)	(5,310)
Disposals	-	(84)	-	(4)	-	(88)
At 31 Dec 2005	40	2,833	1,228	1,105	8	5,214
Net book amount						
At 31 Dec 2005	1,176	31,381	512	423	27	33,519

At 31 December 2006, IT software and equipment included leased assets with a net book value of £nil (2005 - £nil)

Company

The company has no property, plant and equipment

11. Investments in subsidiaries

Company

Shares in subsidiary undertakings	*Total* *£'000*
Cost	
At 1 January 2006	3,566
Additions	-
At 31 December 2006	3,566

Notes to the financial statements
at 31 December 2006

11. Investments in subsidiaries (continued)

The company's subsidiary undertakings at 31 December 2006 are listed below

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

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

(2) The subsidiary is now dormant

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

12 Intangible assets

31 December 2006	*Application Software* *£'000*	*Goodwill* *£'000*	*Total* *£'000*
Cost			
At 1 January 2006	6,786	4,377	11,163
Additions	1,288	-	1,288
At 31 December 2006	8,074	4,377	12,451
Aggregate Amortisation			
At 1 January 2006	5,291	-	5,291
Charge for the period	1,146	-	1,146
At 31 December 2006	6,437	-	6,437
Net Book Amount			
At 31 December 2006	1,637	4,377	6,014

Notes to the financial statements

at 31 December 2006

12. Intangible assets (continued)

31 December 2005	*Application Software* *£'000*	*Goodwill* *£'000*	*Total* *£'000*
Cost			
At 1 January 2005	5,946	4,377	10,323
Additions	840	-	840
At 31 December 2005	6,786	4,377	11,163
Aggregate Amortisation			
At 1 January 2005	3,443	-	3,443
Charge for the period	1,848	-	1,848
At 31 December 2005	5,291	-	5,291
Net Book Amount			
At 31 December 2005	1,495	4,377	5,872

Goodwill is subject to an annual impairment review

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

13. Impairment testing of goodwill with an indefinite life

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

The Directors feel that a period of greater than 5 years is justified when calculating the value in use as the Retail Supply Business is in the start up phase of its life cycle A growth rate of 1 8% has been used to extrapolate the cash flow projections beyond the period covered by the approved budgets, and a discount rate of 7 73% has been applied to the cash flows

14. Inventories

	2006 *£'000*	*2005* *£'000*
Fuel Oil	629	294
Levy Exempt Certificates and Renewable Obligation Certificates	2,228	535
	2,857	829

Notes to the financial statements

at 31 December 2006

15. Trade and other receivables

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Trade receivables	61,025	82,939	-	-
Amounts owed by group undertakings	5,952	2,540	1	-
Amounts owed by subsidiary undertakings	-	-	70,103	76,242
Other receivables	7,090	-	-	-
Prepayments and accrued income	113,397	128,926	-	-
Other taxes and social security	195	37	-	-
	187,659	214,442	70,104	76,242

16 Current tax assets

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Corporation Tax – payable	-	-	-	-
Corporation Tax – receivable	1	1	-	-
	1	1	-	-

17. Cash and short-term deposits

	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000
Cash at bank and in hand	17,199	17,634	-	-
Short-term deposits	22,500	13,300	-	-
	39,699	30,934	-	-

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

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

Notes to the financial statements

at 31 December 2006

17. Cash and short-term deposits (continued)

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

	Group		*Company*	
	2006	*2005*	*2006*	*2005*
	£'000	*£'000*	*£'000*	*£'000*
Cash at bank and in hand	17,199	17,634	-	-
Short-term deposits	22,500	13,300	-	-
	39,699	30,934	-	-

18. Trade and other payables

	Group		*Company*	
	2006	*2005*	*2006*	*2005*
	£'000	*£'000*	*£'000*	*£'000*
Trade creditors	5,188	6,519	-	-
Amounts owed to group undertakings	113,578	122,010	-	986
Amounts owed to fellow subsidiary undertakings	-	-	1	-
Other creditors	15,038	16,509	-	-
Other taxation and social security	28,565	29,812	-	-
Accruals and deferred income	19,685	21,088	-	-
	182,054	195,938	1	986

Notes to the financial statements

at 31 December 2006

19. Financial liabilities

	Group		*Company*	
	2006	*2005*	*2006*	*2005*
	£'000	*£'000*	*£'000*	*£'000*
Current				
Gaz de France intercompany facility	38,000	40,000	38,000	40,000
Amounts owed to parent undertaking	6,700	-	6,700	-
Amounts due to customers in respect of certain supply contracts	58,514	28,925	-	-
	103,214	68,925	44,700	40,000
Non-current				
Amounts owed to parent undertaking	14,100	22,750	14,100	22,750
Amounts due to customers in respect of certain supply contracts	8,839	11,795	-	-
	22,939	34,545	14,100	22,750

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

(b) The Gaz de France intercompany facility is a facility provided by the ultimate parent company The interest rate charged on these borrowings is SONIA (Sterling Overnight Index Average) + 0 08%

(c) The amounts owed to parent undertaking represent a loan from Gaz de France repayable over 4 years to 2009 The interest rate charged on these borrowings is 3 month LIBOR + 0 35%

Please refer to note 21 for further details of amounts due to customers in respect of certain supply contracts

Notes to the financial statements

at 31 December 2006

20. Provisions

Group	*Onerous Contracts £'000*	*Decommissioning £'000*	*Total £'000*
At 1 January 2006	5,908	675	6,583
Arising during the year	2,795	27	2,822
Utilised	(5,908)	-	(5,908)
At 31 December 2006	2,795	702	3,497
Current 2006	2,795	-	2,795
Non-current 2006	-	702	702
	2,795	702	3,497
Current 2005	5,908	-	5,908
Non-current 2005	-	675	675
	5,908	675	6,583

Onerous contracts

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

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning the power plant within Gaz de France Generation Limited over the remaining life of 22 years

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

Notes to the financial statements

at 31 December 2006

21. Financial instruments

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

Interest rate risk profile of financial assets and liabilities

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

Group

Year ended 31 December 2006	Within 1year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
Cash and short term deposits	39,699	-	-	-	-	39,699
Amounts owed by group undertakings	5,952	-	-	-	-	5,952
Gaz de France intercompany facility	38,000	-	-	-	-	38,000
Amounts owed to group undertakings	113,578	-	-	-	-	113,578
Amounts owed to parent undertaking	6,700	6,700	6,700	700	-	20,800

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

Company

Year ended 31 December 2006	Within 1year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
Amounts owed by fellow subsidiary undertakings	70,103	42,745	-	-	-	112,848
Gaz de France intercompany facility	38,000	-	-	-	-	38,000
Amounts owed to fellow subsidiaries	1	-	-	-	-	1
Amounts owed to group undertakings	-	-	-	-	-	-
Amounts owed to parent undertaking	6,700	6,700	6,700	700	-	20,800

Notes to the financial statements

at 31 December 2006

21. Financial instruments (continued)

Company

Year ended 31 December 2005	Within 1year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	Total £'000
Amounts owed by fellow subsidiary undertakings	76,242	38,106	-	-	-	114,348
Gaz de France intercompany facility	40,000	-	-	-	-	40,000
Amounts owed to group undertakings	-	-	-	-	-	-
Amounts owed to group undertakings	986	-	-	-	-	986
Amounts owed to parent undertaking	2,750	6,000	6,000	8,000	-	22,750

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

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

Credit risk

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

Fair values of financial assets and financial liabilities

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

Notes to the financial statements

at 31 December 2006

21. Financial instruments (continued)

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£'000	*£'000*	*£'000*	*£'000*
Financial Assets				
Cash and short term deposits	39,699	30,934	-	-
Amounts owed by group undertakings	5,952	2,540	1	-
Amounts owed by fellow subsidiary undertakings	-	-	112,848	114,348
Fair value adjustment of certain wholesale purchase commitments*				
- current	58,514	28,925	-	-
- non-current	8,839	11,795	-	-
Financial Liabilities				
Amounts due to customers in respect of certain supply contracts*				
- current	58,514	28,925	-	-
- non-current	8,839	11,795	-	-
Gaz de France intercompany facility	38,000	40,000	38,000	40,000
Short term borrowings	-	-	-	-
Amounts owed to fellow subsidiaries	-	-	1	-
Amounts owed to group undertakings	113,578	122,010	-	986
Amounts owed to parent undertaking	20,800	22,750	20,800	22,750

*see note on fair value hedges below

Hedges

Fair value hedges

Certain companies within the group enter into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management

Prior to 31 December 2006, those companies had entered into wholesale purchase commitments for future delivery under certain supply contracts where the contract permits the customer to sell back the purchases made prior to delivery The net purchase commitments related to such supply contracts have been fair valued through the income statement The movement in fair value is entirely attributable to changes in market prices The supply contracts with such customers are designated as hedging instruments and these supply contracts are also fair valued through the income statement (see note 2)

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

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

Other hedges

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

Notes to the financial statements

at 31 December 2006

22. Share based payments

Durıng 2005 certaın ex-employees and all current employees wıth greater than 3 months servıce were entıtled to partıcıpate ın the Inıtıal Publıc Offerıng of Gaz de France, the ultımate parent undertakıng There were 3 share purchase schemes open to UK employees

Gaz Dıspo

The purchase cost of shares under thıs scheme was £15 43 and could be sold ımmedıately as they do not have a perıod of non-transferabılıty Bonus shares wıll be awarded on a 1 for 3 basıs ıf the shares are held for a perıod of 1 year

Gaz Plus

The purchase cost of shares under thıs scheme was £12 35, a 20% dıscount on the Inıtıal Publıc Offer prıce Shares are non-transferable for a perıod of two years and bonus shares wıll be awarded on a 1 for 2 basıs, up to a value of £356 61, and 1 for 4 basıs up to the maxımum lımıt of £836 76 provıdıng the shares are held for three years

Gaz Abond

The purchase cost of shares under thıs scheme was £12 35, a 20% dıscount on the Inıtıal Publıc Offer prıce Shares are non-transferable for a perıod of five years and bonus shares wıll be awarded on a 1 for 1 basıs, up to a value of £356 61, and 1 for 4 basıs up to the maxımum lımıt of £836 76 awarded once the five years has passed A further benefit of thıs scheme ıs that the company purchased shares on behalf of employees The company matched the employee ınvestment up to £456 61, contrıbuted £0 40 for every £1 00 the employee ınvested from £456 62 to £2,328 03 and contrıbuted £0 25 for every £1 00 the employee ınvested from £2,328 04 up to a maxımum of £6,664 81

The expense recognısed for share-based payments ın respect of employee servıces receıved durıng, and prıor to the year to 31 December 2006 ıs £20,000 (2005 - £131,000) All of thıs expense arıses from equıty-settled share-based payment transactıons

The followıng table ıllustrates the number (No) of shares granted ın the year together wıth the weıghted average faır value (WAFV) at the grant date,

	2006 No	*2006 WAFV*	*2005 No*	*2006 WAFV*
Shares purchased at grant date	-	-	70,658	13 82
Bonus shares ıssued	1,057	18 75	5,382	12 80
Total shares granted ın the year	1,057	18 75	76,040	13 75

The faır-value of the equıty-settled shares granted has been estımated at the date of grant usıng a method set out ın the French Conseıl Natıonal de la Comptabılıté communıcatıon on employee share ownershıp plans The valuatıon takes account of the terms and condıtıons upon whıch the shares were granted The followıng table lısts the ınputs to the model used for the year ended 31 December 2006

Notes to the financial statements

at 31 December 2006

22. Share based payments (continued)

	2006	*2005*
Reference price of the shares (£)	-	14 09
Current price of the underlying share (£)	23 62	17 04
Average expected period of non-transferability (years)	-	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

23. Authorised and issued share capital

	2006 £'000	2005 £'000
Authorised		
52,500,000 ordinary shares of £1 each	52,500	52,500
Called up, allotted and fully paid		
51,900,972 ordinary shares of £1 each	51,901	51,901

24 Reconciliation of movements in equity

Group

	Equity Share Capital £'000	*Retained Earnings £'000*	*Total Equity £'000*
At 1 January 2005	51,901	(24,976)	26,925
Loss for the year	-	(6,632)	(6,632)
Share based payment	-	131	131
Employer contribution to share based payment	-	(98)	(98)
At 31 December 2005	51,901	(31,575)	20,326
Profit for the year	-	3,039	3,039
Share based payment	-	20	20
At 31 December 2006	51,901	(28,516)	23,385

Notes to the financial statements

at 31 December 2006

24. Reconciliation of movements in equity (continued)

Company

	Equity Share Capital £'000	*Retained Earnings £'000*	*Total Equity' £'000*
At 1 January 2005	51,901	(406)	51,495
Profit for the year	-	2,683	2,683
At 31 December 2005	51,901	2,277	54,178
Profit for the year	-	3,436	3,436
At 31 December 2006	51,901	5,713	57,614

25. Pension arrangements

The company operates a defined contribution pension scheme, the assets of which are held separately from those of the company Employer's contributions to the scheme during the year were £169,000 (2005 – £173,000) At 31 December 2006, contributions of £26,000 (2005 – £nil) were unpaid

26. Other financial commitments

(i) Operating leases

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

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

	Land and building		*Other*	
	2006	*2005*	*2006*	*2005*
	£'000	*£'000*	*£'000*	*£'000*
Not later than one year	388	388	132	152
After one year but not more than five	1,552	1,934	63	172
After five years	2,529	2,739	-	-
	4,469	5,061	195	324

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

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

Notes to the financial statements

at 31 December 2006

26 Other financial commitments (continued)

(ii) Gas purchase commitments

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

	2006 *£'000*	*2005* *£'000*
Not later than one year	332,934	249,457
After one year but not more than five	123,995	70,274
After five years	-	-
	456,929	319,731

(iii) Electricity purchase commitments

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

	2006 *£'000*	*2005* *£'000*
Not later than one year	178,144	262,020
After one year but not more than five	56,494	75,247
After five years	-	-
	234,638	337,267

27. Related party transactions

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

	% equity interest	
	2006	*2005*
Gaz de France Solutions Limited	100	100
Gaz de France Sales Limited	100	100
Gaz de France Marketing Limited	100	100
Gaz de France Services Limited	100	100
Gaz de France Generation Limited	100	100

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

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

Notes to the financial statements

at 31 December 2006

27. Related party transactions (continued)

The ultimate parent undertaking of the group of undertakings for which group financial statements are drawn up, and of which the company is a member, is Gaz de France International SA, 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 International SA

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

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

Company

2006

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£ 000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Gaz de France International SA	-	-	-	1,156	1	-
Gaz de France International SA (Current Loan)	-	-	-	-	-	38,000
Gaz de France International SA (Non-Current Loan)	-	-	-	-	-	20,800
Gaz de France Solutions Limited	-	-	2,288	-	65,369	-
Gaz de France Sales Limited	-	-	11	-	213	-
Gaz de France Marketing Limited	-	-	36	-	5,314	-
Gaz de France Generation Limited	-	-	2,242	-	3,846	-
Gaz de France Generation Limited (Non-Current Loan)	-	-	-	-	38,106	-

2005

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Gaz de France International SA	-	-	-	986	-	986
Gaz de France International SA (Current Loan)	-	-	-	-	-	40,000
Gaz de France International SA (Non-Current Loan)	-	-	-	-	-	22,750
Gaz de France Solutions Limited	-	-	482	-	69,158	-
Gaz de France Sales Limited	-	-	449	-	202	-
Gaz de France Marketing Limited	-	-	1,133	-	5,279	-
Gaz de France Generation Limited	-	-	1,604	-	1,604	-
Gaz de France Generation Limited (Non-Current Loan)	-	-	-	-	38,106	-

Notes to the financial statements

at 31 December 2006

27. Related party transactions (continued)

Terms and conditions of transactions

Interest payable to Gaz de France International SA represents interest charged on current and non-current loans, the rate charged on these balances is equal to 3 month LIBOR + 0 35%

Interest receivable from the company's subsidiaries represents amounts charged on Intercompany balances, the rate charged on these balances is equal to Barclays Base Rate + 1 00%

Group

2006

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Gaz de France International SA	14,998	825,062	-	1,156	1,096	106,677
Gaz de France International SA (current loan)	-	-	-	-	-	38,000
Gaz de France International SA (non-current loan)	-	-	-	-	-	20,800
Gaselys SA	17,386	347,140	-	-	2,690	6,563
Gaz de France Britain Limited	-	-	-	-	360	-
Cofathec Heatsave Limited	4,799	3,501	-	-	1,806	338

2005

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Gaz de France International SA	71	376,192	-	-	-	35,119
Gaz de France International SA (current loan)	-	-	-	13	-	40,000
Gaz de France International SA (non-current loan)	-	-	-	973	-	22,750
Gaselys SA	32,072	513,400	-	-	-	86,694
Gaz de France Britain Limited	1,692	-	-	-	1,439	-
Cofathec Heatsave Limited	2,726	2,293	-	-	1,101	-
Investment Gas Holland Limited	-	197	-	-	-	197

Terms and conditions of transactions

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

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

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

Notes to the financial statements

at 31 December 2006

27 Related party transactions (continued)

The group operates a netting banking facility between its constituent companies A Letter of Comfort from Gaz de France International SA and a debenture and cash cover held in the name of the company's bankers provides security for this facility (note 17)

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

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

Interest payable to Gaz de France International SA represents interest charged on current and non-current loans, the rate charged on these balances is equal to 3 month LIBOR + 0 35%

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

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

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

Compensation of key management personnel of the group

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

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