

British Gas Trading Limited

**Annual report and Financial Statements
for the year ended 31 December 2008**

(Registered No: 3078711)

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British Gas Trading Limited

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The Directors present their report and the audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2008.

Principal activities

The principal activity of the Company is the provision of gas and electricity to homes and businesses in the United Kingdom.

Review of business and future developments

During the first half of 2008 the Company experienced rapidly rising global oil and gas prices, only to see them fall in the second half at the same time as the credit markets tightened greatly for all of our customers and counterparties. This backdrop, coupled with the increasing obligations being placed on the energy supply industry, meant that profits in the residential marketplace were down by 34% (before the HRL pricing adjustment - see below) even after the Company followed other suppliers and raised retail tariffs twice during the year. The business marketplace reported strong growth in profits but this was more than offset by losses in the legacy industrial and commercial gas supply contracts. Despite operating in a much tougher environment customer service improved significantly in the year and the Company continued to demonstrate industry leadership in supporting those customers less able to pay their fuel bills. During the year the Company also continued to seek gas supply contracts to diversify the price indexation and further build its contractual hedge position.

Operating profit is reduced as a result of an adjustment to prices on a contract to procure gas from the Company's wholly owned subsidiary, Hydrocarbon Resources Limited (HRL). This pricing adjustment reflects results from a historical re-negotiation of the contract such that the Company pays a price to HRL based on month ahead prices which were in excess of current market rates. It increased the cost of sales by a total of £237.0 million (2007: £146.0 million). This renegotiation was terminated with effect from 1 October 2008 from which time the price was based on market rates.

The economic landscape continues to worsen and energy markets remain volatile and erratic placing pressure on our business and on our customers. In these challenging conditions the Company will strive to ensure that good service and competitive prices are provided to all with support for the most vulnerable. In continuing to transform the British Gas brand the Company is now seeking to work closely with British Gas Services Limited to deepen the customer relationship by combining energy and services products with a single customer focus. This will enable us to launch new bundled products and increase customer loyalty. The Company will also continue to be relentless in the pursuit of further cost reductions and in securing competitive long-term sources of gas.

The financial position of the Company is presented in the balance sheet on page 8. Shareholders' funds at 31 December 2008 were £927,702,000 (2007: £1,060,849,000). Included within amounts owed to group undertakings is £1,114.8 million (2007: £492.2 million) that is due to Centrica plc. The amount payable is unsecured, interest free and technically repayable on demand. However, Centrica plc have confirmed that they intend to provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future. In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

Results and dividends

The loss on ordinary activities after taxation for the year ended 31 December 2008 is £(145.6) million (2007: profit £509.4 million). The Directors do not recommend payment of a final dividend (2007: £nil).

Principal risks and uncertainties and risk management

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Centrica plc group ("the Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group which include those of the Company are discussed on pages 31-34 of the 2008 Annual Report and Accounts of the Group which does not form part of this report.

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed.

Exposure to commodity price risk, counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors. An energy management team manages energy market price and volumetric risks.

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk arises as a result of contracted or forecast retail sales of gas and electricity not being fully matched by procurement contracts with equivalent volumes, time periods and pricing. The risk is primarily that market prices for commodities will move adversely between the times that sales prices are fixed or tariffs are set and the times at which the purchase costs are fixed, thereby potentially reducing expected margins.

The Company's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customer energy requirements.

Certain procurement contracts and sales contracts constitute derivative financial instruments. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery. Refer to note 22 for details.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance. In the case of business customers credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. For residential customers, creditworthiness is ascertained normally before commencing to trade by reviewing an appropriate mix of internal and external information. Ageing of debtors is monitored and used to manage the exposure to credit risk.

Cash forecasts identifying the liquidity requirements of the Company are produced periodically and reviewed to ensure there is sufficient financial headroom for at least a 12 month period.

Key performance indicators (KPI's)

The Company Directors monitor performance of the individual business units that constitute British Gas Trading Limited. Key performance indicators relating to these business units are included in the Centrica plc 2008 Annual Report and Accounts on pages 12-13.

Directors

The following served as Directors during the year and up to the date of signing this report:

P K Bentley	
P Roberts	(appointed 18 March 2008)
C J Stern	(appointed 18 March 2008)
M L Turner	(appointed 18 March 2008)
C P A Weston	(appointed 18 March 2008; resigned 5 May 2009)
I Wood	(appointed 18 March 2008)
V M Hanafin	(appointed 31 July 2008)
J S Ulrich	(resigned 31 July 2008)

Related party transactions

The Company has taken advantage of the exemptions within FRS 8 "Related party disclosures" from disclosure of transactions with other Centrica Group companies. Except for any related party disclosures disclosed in the Centrica plc 2008 Annual Report and Accounts, there have been no other disclosable related party transactions during the year (2007: £nil). Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on an arm's length basis.

Creditor payment policy

It is the Company's policy to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas and electricity supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of payment in advance with the supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2008 was 33 days (2007: 37 days).

Employment policies

During 2008, the Company employed an average of 9,855 people, all employed in the United Kingdom (2007: 10,269 restated for refinement of the headcount allocation policy). The disclosures surrounding the 'Employee Costs' and the 'Average number of employees during the year' (see note 4) relate to Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The Directors believe that the disclosures given are the fairest representation of the staff costs for the business.

Employees are regularly updated on performance against the Company's strategy. There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views. The Centrica Group, to which British Gas Trading Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors.

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents. To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees.

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way.

Political and charitable donations

Charitable donations during the year amounted to £3,649,949 (2007: £264,032). This included a donation of £3,550,000 to the British Gas Energy Trust, which supports vulnerable customers. There were no political donations made during the year (2007: nil).

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Post balance sheet events

On 25 February 2009, the Company terminated an out of the money gas sales contract with Deutsche Bank AG through a payment of £139.2 million which represents the difference between the sales contract price and market price at the date of termination. The amount included in the sales contract loss provision as at 31 December 2008 in respect of the post-termination portion of this contract was £48.6 million which is based on the difference between the sales contract price and the least cost of gas available to the Company (see note 16). The difference of £90.6 million between the termination payment and the year end provision is therefore due to the difference between market price at termination and the least cost of gas. The provision will be released in 2009.

Post balance sheet events (continued)

On 11 May 2009 the Group announced its intention to acquire a 20% interest in Lake Acquisitions Limited, the owner of British Energy Group plc ("BE"), for £2.2 billion, from EDF SA ("EDF Group"), to sell to the EDF Group its 51% interest in SPE SA for £1.1 billion, and to participate in a new nuclear building programme through a joint venture arrangement of which the Group's share is up to 20%. The deal is subject to shareholder and regulatory approval. As part of this deal the Company would be party to various power purchase agreements ("PPAs") which would entitle the Company to the Group's pro-rata share of BE's output and, in addition, 18TWh of power from the EDF Group (over five years from 2011) at market prices. The financial impact of these PPAs would depend on a number of variables including power prices and the output from BE's nuclear power stations.

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' report confirm that: so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the board on 28 May 2009.


for and on behalf of Centrica Secretaries Limited

Company Secretary

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Independent auditors' report to the members of British Gas Trading Limited

We have audited the financial statements of British Gas Trading Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether 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

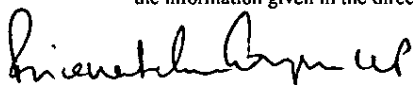
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 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.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Embankment Place
London
WC2N 6RH

29 May 2009

British Gas Trading Limited

Profit and loss account for the year ended 31 December 2008

		2008	2007
	Notes	£000	Restated £000
Turnover	2	12,533,432	10,023,752
Cost of sales		(11,635,872)	(8,404,202)
Gross profit		897,560	1,619,550
Administrative expenses	3	(1,052,299)	(1,052,078)
Operating (loss)/profit		(154,739)	567,472
Interest receivable and similar income	5	17,231	23,036
Interest payable and similar charges	5	(5,265)	(6,105)
(Loss)/profit on ordinary activities before taxation		(142,773)	584,403
Tax on (loss)/profit on ordinary activities	6	(2,857)	(75,009)
(Loss)/profit for the financial year	19	(145,630)	509,394

There are no material differences between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for the financial year stated above and their historical cost equivalents.

There have been no recognised gains or losses during the year other than those shown in the profit and loss account.

The prior year turnover and cost of sales figures have been reduced by £567 million due to elimination of internal commodity transactions between individual business units operated by the Company. This has had a £nil effect on the gross profit and results for 2007.

All activities relate to continuing activities.

The notes on pages 9 to 26 form part of these financial statements.

British Gas Trading Limited

Balance sheet at 31 December 2008

		2008	2007
	Notes	£000	Restated £000
Fixed assets			
Intangible assets	7	259,886	146,917
Tangible assets	8	209,151	202,183
Investments - shares in subsidiary undertakings	9	1,247,162	1,247,162
Investments - other	10	3,068	1,804
		<u>1,719,267</u>	<u>1,598,066</u>
Current assets			
Stocks	11	155,020	58,704
Debtors (amounts falling due within one year)	12	2,392,459	1,795,618
Debtors (amounts falling due after more than one year)	12	15,904	15,313
Cash at bank and in hand		21,922	1,994
		<u>2,585,305</u>	<u>1,871,629</u>
Creditors (amounts falling due within one year)			
Borrowings	14	(942)	(1,555)
Other creditors	15	<u>(3,200,070)</u>	<u>(2,230,571)</u>
		<u>(3,201,012)</u>	<u>(2,232,126)</u>
Net current liabilities		<u>(615,707)</u>	<u>(360,497)</u>
Total assets less current liabilities		1,103,560	1,237,569
Creditors (amounts falling due after more than one year)			
Other creditors	15	(4,264)	(14,367)
Provisions for liabilities	16	<u>(171,594)</u>	<u>(162,353)</u>
Net assets		<u>927,702</u>	<u>1,060,849</u>
Capital and reserves			
Called up share capital	17	800,000	800,000
Share premium account	19	447,162	447,162
Profit and loss account	19	<u>(319,460)</u>	<u>(186,313)</u>
Total shareholder's funds	20	<u>927,702</u>	<u>1,060,849</u>

The prior year balance sheet has been restated to reflect a change in accounting policy for renewable obligation certificates (see notes 1 and 7), reclassifying £51.6m from debtors to intangible assets. There has been no effect on the results for either 2007 or 2008.

The financial statements on pages 7 to 26 were approved and authorised for issue by the Board of Directors on 28 May 2009 and were signed on its behalf by:

M. L. Turner

Lynne Turner
Director

The notes on pages 9 to 26 form part of these financial statements.

1 Principal accounting policies

The following accounting policies have been applied consistently in relation to the Company's financial statements, with the exception of:

- (a) A change in the accounting for Renewable Obligation Certificates which is discussed below under intangible fixed assets and for which the 2007 comparative balances have been restated.
- (b) A restatement to the prior year turnover and cost of sales figures which have been reduced by £567 million due to elimination of internal commodity transactions between individual business units operated by the Company. This has had a £nil effect on the gross profit and results for 2007. See note 2.

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with United Kingdom Accounting Standards and the Companies Act 1985.

The Directors believe that the going concern basis is applicable for the preparation of the accounts as the ultimate parent company, Centrica plc, has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. In particular the amounts owed to Group undertakings will not be required to be repaid for the foreseeable future.

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within FRS 1, "Cash flow statements" (revised 1996), from presenting a cash flow statement; within FRS 2, "Accounting for subsidiary undertakings", from consolidating its subsidiary undertakings and incorporating the results of its share of joint ventures and associates; and within FRS 8, "Related party disclosures", from disclosing transactions with other group companies.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, value added tax and other sales-related taxes. Turnover is recognised on the basis of energy supplied during the period. Turnover includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors. All turnover arose in the United Kingdom.

Cost of sales

Cost of sales includes the cost of gas and electricity purchased, related transportation costs and bought in materials and services.

Employee share schemes

The Company accounts for share-based payments under FRS 20 "Share based payments". The Centrica Group to which British Gas Trading Limited belongs has a number of employee share schemes, detailed in the Remuneration Report on pages 44-55 and in note 33 of the Centrica plc 2008 Annual Report and Accounts, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in the equity over the vesting period, based on the Centrica Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based vesting conditions.

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

LTIS: awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance
LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the Total Shareholder Return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise.
SAS, SIP, DMSS and RSS	Market value on the date of grant

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences are recognised through the profit and loss account.

1 Principal accounting policies (continued)**Intangible fixed assets**

Goodwill arising on the acquisition of a business is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. On the acquisition of a business, fair values are attributed to the assets and liabilities acquired. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period, which represents the directors' estimate of its useful economic life. Goodwill is being amortised over periods ranging from 15 to 20 years. If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on disposal.

Granted CO2 emissions allowances received in a period are initially recognised at nominal value (nil value). Purchased CO2 emissions allowances are initially recognised at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceed the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

Purchased renewable obligation certificates (ROCs) are initially recognised at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period. The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

In prior reporting periods ROCs and CO2 emissions allowances were classified as other debtors due within one year. They do not have physical substance but are identifiable and controlled by the entity through legal rights. Accordingly, they are intangible by nature and disclosing them as such gives more reliable and robust accounting information. This brings the Company's accounting policy in line with that of its ultimate Group. The only impact on the prior year of this change in policy is to reclassify £51.6m from debtors to intangible assets (see notes 7 and 12). There is no impact on profit or loss for the year.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

In the case of investments in Customer Relationship Management (CRM) systems and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Plant	5 to 20 years
Equipment and vehicles	3 to 10 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

Asset impairments

Intangible and tangible fixed assets and financial assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis in relation to the periods in which they fall due.

Investments

Fixed asset investments are included in the balance sheet at cost, less any provisions for impairment as necessary.

Financial assets

Financial assets are included in the balance sheet at cost, less any provisions for impairment as necessary.

Stocks

Stocks, excluding stocks of gas and oil, are valued on a first-in, first-out basis, at the lower of cost or estimated net realisable value after allowance for redundant and slow moving items. Stocks of gas and oil are valued on a weighted average basis, at the lower of cost and estimated net realisable value. See also policy on Carbon Emission Reduction Target Programme below.

Carbon Emission Reduction Target Programme (CERT)

UK licensed energy suppliers are set a carbon emission reduction target by the Government which is proportional to the size of their customer base. The current CERT programme runs from April 2008 to March 2011. The target is subject to an annual adjustment throughout the programme period to take account of changes to a UK licensed energy supplier's customer base. Energy suppliers can meet the target through expenditure on qualifying projects which gives rise to carbon savings. The carbon savings can be transferred between energy suppliers. The Company charges the costs of the programme to cost of sales and capitalises costs incurred in deriving carbon savings in excess of the annual target as stock which is valued at the lower of cost or net realisable value and which may be used to meet the carbon emissions reduction target in subsequent periods or be transferred to third parties. The stock is treated as finished goods and is carried on a first-in, first-out basis. The carbon emission reduction target for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process.

1 Principal accounting policies (continued)

Take-or-pay contracts

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and are included within debtors, provided they generate future economic benefits.

Pensions

The Company's employees participate in a number of the Group's defined benefit pension schemes. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The pension disclosures for the entire Centrica group are disclosed in note 34 to the Centrica plc 2008 Annual Report and Accounts. The charge to the Company's profit and loss account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Centrica Group as a whole.

Provisions

Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Where discounting is used the increase in the provision due to the passage of time is recognised in the Profit and Loss Account included within interest.

Provisions for long term sales 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 price and the least cost of gas available on a stacked, contract by contract basis.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

Deferred tax is measured on a non-discounted basis.

Financial Instruments

Certain financial instruments are used by the Company to manage financial risks. Gains and losses are recognised in the profit and loss account in the same period as the income and costs of the realised hedged transactions. Outstanding contracts used to hedge against trading items which themselves will be accounted for in a future period, are not recognised, or are deferred until they mature and are carried forward to match against corresponding gains and losses when they occur.

Critical accounting judgements and key sources of estimation uncertainty

(i) Revenue recognition - unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Company, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Company, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of the revenue recognised.

(ii) Industry reconciliation process - cost of sales

The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers. This difference in deemed supply is referred to as imbalance. The reconciliation process can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Company, but in practice tends to result in a higher value of deemed supply. The Company then reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Company's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through the developing industry settlement process.

British Gas Trading Limited

Notes to the financial statements (continued)

2 Segmental analysis

All of the turnover of £12,533 million (2007: £10,024 million, restated from £10,591 million for elimination of internal commodity transactions between individual business units operated by the Company) relates to energy supply, the principal activity of the business. All energy supply arose in the United Kingdom. This segment had an operating loss of £(154.7) million in 2008 (2007: profit £567.5 million) and net assets of £927.7 million at 31 December 2008 (2007: £1,060.8 million net assets).

3 Administrative expenses

The Company's administrative expenses, which have been charged to the profit and loss account, include:

	Notes	2008 £000	2007 £000
Amortisation of goodwill	7	7,628	7,627
Impairment of emissions allowances	7	30,561	-
Depreciation:			
Owned assets	8	45,739	50,484
Operating lease rentals:			
Plant, equipment and vehicles		4,216	3,896
Auditors' remuneration:			
Statutory audit (inter group recharge)		930	871
Other		156	211
Loss on sale of fixed assets		1,439	144

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory accounts of British Gas Trading Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of British Gas Trading Limited. Prior year audit fees have been restated to reflect the reallocation of an element of the Centrica Group fee.

4 Directors and employees

Directors' emoluments

The Directors received no emoluments in respect of their services to the Company as they were employed by other Centrica group companies (2007: £nil). The emoluments for Phil Bentley and Mark Hanafin in respect of services to the Centrica Group are disclosed in the Centrica plc 2008 Annual Report and Accounts. All of the Directors are members of the ultimate parent company's defined benefit pension scheme.

	2008 £000	2007 £000
Employee costs		
Wages and salaries	321,296	299,811
Social security costs	29,565	29,710
Other pension and retirement benefits costs	82,724	62,138
Executive share option scheme	476	820
Long term incentive scheme	4,470	4,126
Share incentive plan	422	1,550
Employee sharesave scheme	2,770	2,220
Share award scheme	970	1,040
Deferred and matching share scheme	2,074	1,341
	444,767	402,756

Average number of employees during the year

The average monthly number of employees, all employed in the United Kingdom, during the year was 9,855 compared to 10,269 (restated for refinement of headcount allocation policy) for 2007. All employees were administrative and sales staff.

The disclosures surrounding the Employee costs and the 'Average number of employees during the year' include all Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The Directors believe that the disclosures given are the fairest representation of the number of people working in the business.

British Gas Trading Limited

Notes to the financial statements (continued)

5 Net interest

	Note	2008 £000	2007 £000
Interest receivable and similar income			
Interest receivable from group undertakings		-	424
Notional interest arising on discounted items		1,382	2,962
Other interest receivable		15,849	19,650
		<u>17,231</u>	<u>23,036</u>
Interest payable and similar charges			
Interest payable on bank loans and overdrafts		-	(37)
Interest payable to group undertakings		-	(110)
Notional interest arising on discounted items	16	(4,700)	(5,958)
Other interest payable		(565)	-
		<u>(5,265)</u>	<u>(6,105)</u>
Net interest receivable		<u>11,966</u>	<u>16,931</u>

6 Tax on (loss)/profit on ordinary activities

	2008 £000	2007 £000
Current tax:		
UK corporation tax on (loss)/profit for the year at 28.5% (2007: 30%)	4,341	-
Adjustments in respect of prior years	-	(1,639)
Total current tax	<u>4,341</u>	<u>(1,639)</u>
Deferred tax:		
Effect of change to deferred tax rate	-	865
Origination and reversal of timing differences	2,525	107,885
Adjustments in respect of prior years	(4,009)	(32,102)
Total deferred tax (note 13)	<u>(1,484)</u>	<u>76,648</u>
Total tax on (loss)/profit on ordinary activities	<u>2,857</u>	<u>75,009</u>

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

	2008 £000	2007 £000
(Loss)/profit on ordinary activities before taxation	<u>(142,773)</u>	<u>584,403</u>
Tax (credit)/charge on (loss)/profit on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	(40,690)	175,321
Effects of:		
Expenses not deductible for tax purposes	65,120	40,598
Utilisation of timing differences including losses	3,111	(28,971)
Capital allowances in excess of depreciation	(3,703)	(7,853)
Use of brought forward losses	-	(71,061)
UK:UK transfer pricing	(19,497)	(18,241)
Group relief for nil consideration	-	(89,793)
Adjustments in respect of prior years	-	(1,639)
Total current tax charge	<u>4,341</u>	<u>(1,639)</u>

7 Intangible assets

	Goodwill £000	Emission allowances and renewable obligation certificates £000	Total £000
Cost			
1 January 2008 as previously reported	125,274	-	125,274
Restatement (i)	-	51,572	51,572
1 January 2008 as restated	125,274	51,572	176,846
Additions	-	259,822	259,822
Surrenders	-	(100,167)	(100,167)
Disposals	-	(8,497)	(8,497)
At 31 December 2008	125,274	202,730	328,004
Accumulated amortisation			
1 January 2008	(29,929)	-	(29,929)
Impairment recognised in income (ii) (note 3)	-	(30,561)	(30,561)
Charge for the year (note 3)	(7,628)	-	(7,628)
At 31 December 2008	(37,557)	(30,561)	(68,118)
Net book value			
At 31 December 2008	87,717	172,169	259,886
At 31 December 2007 as restated	95,345	51,572	146,917

(i) The restatement arises from a change in accounting policy in respect of renewable obligation certificates (ROCs), which do not have physical substance but are identifiable and controlled by the entity through legal rights. Accordingly, they are intangible by nature and disclosing them as such gives more reliable and robust accounting information. This brings the Company's accounting policy in line with that of the ultimate Group. The only impact on the prior year of this change in policy is to reclassify £51.6 million from debtors to intangible assets. There is no impact on profit or loss for the year.

(ii) A £30.6 million impairment of emissions allowances was recognised within cost of sales to reflect a reduction in fair value (less costs to sell) as a result of a decrease in market prices. This was partially offset by a reduction in the obligation related to emission allowances of £30 million to give a net effect on the profit and loss account of £(0.6) million.

Goodwill represents the following acquisitions:

	Year of acquisition	Economic life	Original cost £000	Carrying amount £000
Trade and assets of Enron Direct	2001	15	56,962	30,066
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	7,398
Trade and assets of Electricity Direct	2005	15	24,903	19,923
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34,663	30,330
			125,274	87,717

British Gas Trading Limited

Notes to the financial statements (continued)

8 Tangible assets

	Plant, equipment and vehicles £000
Cost	
1 January 2008	594,027
Additions	55,500
Disposals	<u>(11,139)</u>
At 31 December 2008	<u>638,388</u>
Accumulated depreciation	
1 January 2008	(391,844)
Charge for the year (note 3)	(45,739)
Disposals	<u>8,346</u>
At 31 December 2008	<u>(429,237)</u>
Net book value	
At 31 December 2008	<u>209,151</u>
At 31 December 2007	<u>202,183</u>

9 Investments - shares in subsidiary undertakings

Cost and net book value	£000
At 31 December 2007 and at 31 December 2008	<u>1,247,162</u>

At 31 December 2008 the Company had interests in the issued share capital of the subsidiary undertakings listed below:

Subsidiary undertaking	Business	Country of incorporation	Proportion of nominal value of shares held
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%
Electricity Direct (UK) Limited	Dormant	United Kingdom	100%

Income from fixed asset investments

No dividends were received during the year (2007: £nil).

10 Investments - other

	2008 £000	2007 £000
At 1 January	1,804	1,047
Additions	<u>1,264</u>	<u>757</u>
At 31 December	<u>3,068</u>	<u>1,804</u>

During 2008 the Company continued to invest in a carbon fund and managed account which is managed through a closed-end limited partnership called Climate Change Capital.

British Gas Trading Limited

Notes to the financial statements (continued)

11 Stocks

	2008 £000	2007 £000
Gas in storage	75,818	46,522
Other raw materials and consumables	10,394	9,468
Finished goods for resale	68,808	2,714
	<u>155,020</u>	<u>58,704</u>

12 Debtors

	2008 Within one year £000	2008 After more than one year £000	2007 Within one year (restated) £000	2007 After more than one year £000
Trade debtors	865,882	-	578,559	-
Accrued energy income	1,277,931	-	974,682	-
Amounts owed by group undertakings	12,581	3,113	6,193	7,075
Deferred tax (note 13)	802	12,791	3,871	8,238
Other debtors	200,730	-	217,786	-
Prepayments and other accrued income	34,533	-	14,527	-
	<u>2,392,459</u>	<u>15,904</u>	<u>1,795,618</u>	<u>15,313</u>

Included within amounts owed by group undertakings within one year is £4.0 million (2007: £3.7 million) that is due from Centrica Resources Limited, £1.8 million (2007: £nil) that is due from Centrica (BOW) Limited, £0.4 million (2007: £nil) that is due from Solar Technologies Installations Limited, £0.1 million (2007: £1.0 million) that is due from Centrica Energie GmbH, £1.0 million (2007: £1.0 million) that is due from Centrica Resources (Egypt) limited, £3.7 million (2007: £0.5 million) that is due from Centrica Resources (Nigeria) Limited and £1.6 million (2007: £nil) that is due from Centrica Resources (Norge) AS. These amounts receivable are unsecured, interest free and repayable within one year. Also included in amounts owed by group undertakings after more than one year is £3.1 million (2007: £7.1 million) that is due from Centrica Resources Limited and this amount receivable is unsecured and interest free.

The prior year restatement is due to a change in accounting policy for renewable obligation certificates (see note 7).

13 Deferred taxation

Deferred tax assets at 28% (2007: 28%) comprise:

	Amounts recognised	
	2008 £000	2007 £000
Deferred corporation tax		
- accelerated capital allowances	4,363	7,905
- other timing differences	9,230	4,204
	<u>13,593</u>	<u>12,109</u>

14 Borrowings

	2008 Within one year £000	2007 Within one year £000
Bank loans and overdrafts	<u>942</u>	<u>1,555</u>

The Company's bank overdraft at the year end is unsecured and represented items in the process of being cleared by the bank. Centrica plc's treasury department pools funds daily and via intercompany accounts resets the Company's balance at the bank to £nil. All interest charges payable on the bank overdraft during the period are borne by the parent undertaking.

Notes to the financial statements (continued)

15 Other creditors

	2008 Within one year £000	2008 After more than one year £000	2007 Within one year £000	2007 After more than one year £000
Trade creditors	995,591	-	775,791	-
Amounts owed to group undertakings	1,397,022	-	628,414	-
Taxation and social security	30,477	-	29,019	-
Other creditors	531,495	-	567,194	11,049
Accruals and deferred income:				
Transportation	11,103	-	16,510	-
Other accruals and deferred income	234,382	4,264	213,643	3,318
	<u>3,200,070</u>	<u>4,264</u>	<u>2,230,571</u>	<u>14,367</u>

Included within amounts owed to group undertakings is £1,114.8 million (2007: £492.2 million) that is due to Centrica plc. The amount payable is unsecured, interest free and technically repayable on demand. However, Centrica plc have confirmed that they intend to provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future. In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

Also included within amounts owed to group undertakings is £98.0 million (2007: £123.0 million) that is due to Hydrocarbon Resources Limited, £142.7 million (2007: £9.4 million) that is due to Accord Energy Limited, £3.4 million (2007: £3.8 million) that is due to Centrica Storage Limited, £16.8 million (2007: £nil) that is due to Centrica SHB Limited, £5.0 million (2007: £nil) that is due to Centrica KL Limited, £0.4 million (2007: £nil) that is due to Centrica Brigg Limited, £0.6 million (2007: £nil) that is due to Centrica RPS Limited, £1.9 million (2007: £nil) that is due to Centrica Barry Limited, £12.1 million (2007: £nil) that is due to Centrica KPS Limited and £1.2 million (2007: £nil) that is due to British Gas Direct Employment Limited. These amounts are due within one year, are unsecured and interest free.

16 Provisions for liabilities

	At 1 Jan 2008 £000	Transferred from other creditors £000	Profit and loss charge/ (credit) £000	Notional Interest £000	Utilised £000	At 31 Dec 2008 £000
Sales contract loss provision	142,959	-	(7,598)	4,700	-	140,061
Renegotiation provision	7,358	19,286	-	-	-	26,644
Restructuring costs	8,749	-	(6,300)	-	(2,087)	362
Other	3,287	-	1,240	-	-	4,527
	<u>162,353</u>	<u>19,286</u>	<u>(12,658)</u>	<u>4,700</u>	<u>(2,087)</u>	<u>171,594</u>

Sales contract loss provision

The sales contract loss provision represents the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts based on the difference between contracted sales prices and the least cost of gas available on a stacked, contract by contract basis.

Renegotiation provision

In previous years, the Group renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be in excess of requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, most of which was settled in 2008, based on the reserves in a group of third-party fields. The amount transferred from other creditors reflects an element of the Conoco Phillips provision that was not settled in 2008.

Restructuring costs

The provision represents business restructuring costs and mainly relates to staff redundancies. The remaining provision is expected to be fully utilised in 2009.

Other

Included within other is the provision for employer's national insurance charges expected to arise at exercise dates on employee share schemes.

Notes to the financial statements (continued)

17 Called up share capital

	2008 £000	2007 £000
Authorised		
1,800,000,100 ordinary shares of £1 each	1,800,000	1,800,000
1 redeemable share of £1	-	-
Issued, allotted and fully paid		
800,000,100 ordinary shares of £1 each	800,000	800,000

18 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. Centrica operates eight main employee share schemes – the Deferred and Matching Share Scheme (DMSS), the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Restricted Share Scheme (RSS), the Share Incentive Plan (SIP) and the Direct Energy Employee Share Purchase Plan (ESPP) (no British Gas Trading Limited employees are eligible to participate in this scheme, only Centrica employees in North America). These are described in the Remuneration report on pages 44-55 of the Centrica plc 2008 Annual Report and Accounts. There were no other share based payment transactions during the period.

On 15 December 2008 Centrica plc raised proceeds of £2.2 billion, net of issue costs of £65 million, through a Rights Issue as explained in notes 5, 29 and 30 to the Centrica plc 2008 Annual Report and Accounts. The number of shares allocated to employees under the Group's share schemes has been adjusted to reflect the bonus element of the Rights Issue. The terms of the Group's employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the Rights Issue. Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes. Details of the adjustments made to the terms of the Group's employee share schemes, as a result of the Rights Issue, are provided in sections (b) and (c) below.

(a) **Summary of share-based payment plans and movements in the number of shares and options outstanding**
DMSS

Awards under the DMSS are generally reserved for employees within the senior executive group. The scheme operates over a four-year vesting period. Under normal conditions the grant date of the scheme is the first day of each bonus year. This is followed by a vesting period of four years, being the bonus year plus a three-year performance period. The fair value of the award reflects the market value of the shares at the grant date. The scheme comprises three separable elements:

(i) **Deferred shares**

The scheme requires participants to defer 20% of their annual pre-tax bonus into the scheme. The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme). All shares held in trust will be eligible to receive dividends. The number of shares deferred is estimated from the participant's maximum bonus and the likelihood of bonus payout in the bonus year. Subsequent revisions are made based on the actual bonus paid in the year.

(ii) **Investment shares**

The scheme allows participants to elect to invest an additional amount of their annual bonus into the scheme up to a maximum of 50% of their total potential after-tax bonus for the year. This 50% limit includes the amount automatically deferred each year pre-tax. The number of shares invested is estimated based on the maximum bonus in year one. The shares may be funded directly from the employee or through a release of the employee's LTIS shares and thus the shares do not attract an IFRS 2 charge. Subsequent to the bonus year, the shares are held in trust over the three-year performance period and will vest unconditionally. Participants can unconditionally withdraw the investment shares at any point throughout the vesting period although the related matching shares will be forfeited. The shares are eligible to receive dividends.

(iii) **Matching shares**

Deferred and investment shares will be matched with conditional matching shares, which will be released upon the achievement, over a three-year performance period, of three-year cumulative Group economic profit performance targets. Group economic profit is calculated by taking Group operating profit before exceptional items and certain re-measurements after tax and subtracting a charge for capital employed based on the Group's weighted average cost of capital. The number of matching shares that will vest will be determined on a straight-line basis from a zero match for no growth in economic profit up to a two-times match for growth of 25% or more. The number of investment matching shares, subject to the performance conditions, is grossed up to reflect the impact of tax and National Insurance. The number of matching shares released following the satisfaction of the performance conditions will be increased to reflect the dividends that would have been paid during the three-year performance period. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Estimates are made in year one and revised in subsequent years.

An employee who leaves prior to the vesting date (except where permitted by the rules of the scheme) will forfeit their right to the shares.

The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of the actual annual performance bonus and subsequent investment by participants. Details of the fair values of awards granted and related assumptions are included in section (c) below.

Notes to the financial statements (continued)

DMSS (continued)

A reconciliation of movements in allocations of deferred and matching shares actually made is shown below:

	2008	2007 Restated
	Number (i)	Number (i)
Outstanding at start of period	1,139,569	–
Granted	653,313	1,171,658
Forfeited	(62,934)	(32,089)
Transfer (to)/from group companies	(184,897)	–
Outstanding at end of period	1,545,051	1,139,569
Exercisable at end of period	–	–

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

There were no shares released during the period or in 2007.

ESOS

Under the ESOS the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the legal date of grant which approximates, or is the same as, the grant date for accounting purposes. Awards under the ESOS are generally reserved for employees within the senior executive group. Options granted under the ESOS will become exercisable in full on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by 18 percent or more. The number of options becoming exercisable is determined on a straight-line basis between 40% and 100% if EPS growth exceeds RPI growth by between nine and 18 percent. Options granted up to March 2004 also permit retesting of EPS growth annually for a further two years. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme). No performance conditions were included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options.

Details of the fair values of awards granted and related assumptions are included in section (b) below.

	2008 Weighted average exercise price (i) £	2007 Weighted average exercise price (i) £
	Number (i) Restated	Number (i) Restated
Outstanding at start of period	7,285,951	8,007,309
Granted	–	–
Exercised	(1,179,351)	(1,445,212)
Forfeited	(338,936)	(551,338)
Transfer (to)/from other Group companies	488,215	1,275,192
Outstanding at end of period	6,255,879	7,285,951
Exercisable at end of period	4,600,079	2,467,340

(i) Movements in allocations prior to 14 November 2008 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

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

2008				2007			
Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years	Range of exercise prices (i) Restated	Weighted average exercise price (i) Restated	Number of shares (i) Restated	Average remaining contractual life Years Restated
£1.30–£1.39	£1.31	1,042,267	4.2	£1.30–£1.39	£1.31	857,228	5.3
£1.90–£1.99	£1.99	863,725	5.2	£1.90–£1.99	£1.99	632,452	6.3
£2.00–£2.09	£2.03	2,067,142	5.1	£2.00–£2.09	£2.03	2,932,929	6.7
£2.10–£2.19	£2.14	477,297	2.4	£2.10–£2.19	£2.14	456,299	3.4
£2.20–£2.29	£2.23	122,848	6.7	£2.20–£2.29	£2.23	122,865	7.8
£2.50–£2.59	£2.54	1,682,600	7.3	£2.50–£2.59	2.54	2,284,178	8.3
	£2.05	6,255,879	5.4		2.11	7,285,951	6.5

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For options exercised during the period, the weighted average share price adjusted to reflect the bonus element of the Rights Issue was £2.76 (2007 restated: £3.44).

Notes to the financial statements (continued)

18 Share-based payments (continued)

LTIS

Under the LTIS, allocations of shares in Centrica plc are generally reserved for employees at senior management level. For awards made up to 2005, the number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) during the three years following the grant date, compared with the TSR of other shares in the FTSE 100 Index over the same period. The number of shares released is reduced on a sliding scale if Centrica's TSR is ranked between 50th and 25th. Shares are released to participants immediately following the end of the period in which TSR performance is assessed, but release of shares is subject to continued employment within the Group at the date of release (except where permitted by the rules of the scheme). Allocations were valued using the Black-Scholes option pricing model. Performance conditions were included in the fair value calculations, through the use of a Monte Carlo simulation model. For awards made from 2006, the vesting of only half of each award is made on the basis of TSR performance. For this half of the award, the calculation of TSR performance as compared with the TSR of other

FTSE 100 Index shares is consistent with awards made to the end of 2005, except the allocations are valued using a Monte Carlo simulation model. The number of shares released is increased on a sliding scale between 25% and 100% if Centrica's TSR is ranked between 50th and 20th. The vesting of the remaining half of awards made since 2006 is dependent on earnings per share (EPS) growth. This is considered a non-market condition under FRS 20 and dividends attach to the awards, requiring the shares to be fair valued at market value on the date of grant. For shares that vest on awards made from 2006 (for both TSR and EPS portions), additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on them during the performance period. The fair value of the awards is therefore considered to be the market value at the grant date. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of movements in allocations is as follows:

	2008	2007
	Number (i)	Number (i) Restated
Outstanding at start of period	7,920,284	7,190,997
Granted	3,964,266	2,669,551
Exercised	(1,203,874)	(1,801,565)
Forfeited – performance related	(1,042,232)	(15,579)
Forfeited – non performance related	(496,402)	(1,317,701)
Transfer (to)/from other Group companies	(1,064,168)	1,194,581
Outstanding at end of period	8,077,874	7,920,284
Vested at end of period	–	19,385

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For shares released during the period, the weighted average share price adjusted to reflect the bonus element of the Rights Issue was £2.72 (2007

Sharesave

Under Sharesave, the Board may grant options over shares in Centrica plc to UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved, including interest earned. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire. Exercise of options is subject to continued employment within the Group. Details of the fair values of awards granted and related assumptions are included in section (b) below. A reconciliation of movements in allocations is as follows:

	2008		2007
	Weighted average exercise price (i)	Number (i) Restated	Weighted average exercise price (i) Restated
Outstanding at start of period	£1.58	13,413,451	£1.43
Granted	£2.27	2,667,126	£2.59
Exercised	£1.12	(2,710,885)	£1.46
Forfeited	£1.77	(1,176,374)	£1.98
Expired	£1.28	–	–
Transfer (to)/from other Group companies	£1.58	(126,164)	£1.43
Outstanding at end of period	£2.22	12,067,154	£1.64
Exercisable at end of period	£1.15	20,421	£1.61

(i) Movements in allocations prior to 14 November 2008 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

Notes to the financial statements (continued)

18 Share-based payments (continued)

Sharesave (continued).

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

2008				2007			
Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£0.90–£0.99	£0.95	60,976	–	£0.90–£0.99	£0.95	5,131,951	0.9
£1.50–£1.59	–	–	–	£1.50–£1.59	£1.58	7,323	–
£1.60–£1.69	£1.66	1,090,718	0.9	£1.60–£1.69	£1.66	2,130,968	1.7
£1.70–£1.79	–	–	–	£1.70–£1.79	£1.70	–	–
£2.10–£2.19	£2.12	2,417,697	2.3	£2.10–£2.19	£2.12	2,447,855	2.4
£2.20–£2.29	£2.27	3,543,914	4.3	£2.20–£2.29	–	–	–
£2.50–£2.59	£2.59	1,935,341	3.3	£2.50–£2.59	2.59	2,349,057	3.4
	£2.22	9,048,646	3.1		1.64	12,067,154	1.9

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For options exercised during the period, the weighted average share price at the date of exercise adjusted to reflect the bonus element of the Rights Issue was £2.64 (2007 restated: £3.36).

SAS

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Human Resources Director. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at date of grant. Details of the fair values of awards granted and related assumptions are included in section (c) below. A reconciliation of movements in the allocations is as follows:

	2008	2007
	Number (i)	Number (i) Restated
Outstanding at start of period	814,397	501,002
Granted	431,784	379,793
Exercised	(235,459)	(4,636)
Forfeited	(28,466)	(61,762)
Transfer (to)/from other Group companies	102,191	–
Outstanding at end of period	1,084,447	814,397
Vested at end of period	–	–

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For shares released during the period, the weighted average share price at the date of release adjusted to reflect the bonus element of the Rights Issue was £2.71 (2007 restated: £3.42).

Notes to the financial statements (continued)

18 Share-based payments (continued)

RSS

Awards under the RSS are reserved for certain selected key employees at senior management levels, based on recommendation by the Chief Executive and the Group Human Resources Director. Neither the Executive Directors nor the next tier of executive management are eligible to participate. There is no contractual eligibility for RSS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in one or two stages dependent on the individual awards. On vesting, additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the vesting period.

The fair value is therefore considered to be the market value at date of grant. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of movements in the allocations is as follows:

	2008	2007
	Number (i)	Number (i)
	Restated	
Outstanding at start of period	<u>221,467</u>	–
Granted	99,845	221,467
Exercised	(6,321)	–
Forfeited	(2,382)	–
Transfer (to)/from other Group companies	<u>(2)</u>	–
Outstanding at end of period	<u>312,607</u>	<u>221,467</u>
Exercisable at end of period	<u>–</u>	<u>–</u>

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For shares released during the period, the weighted average share price at the date of release adjusted to reflect the bonus element of the Rights Issue was £2.69 (2007 restated: £nil).

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. Centrica plc then grants one 'matching share' for every two purchased, up to a maximum of 20 matching shares per employee per month (since increased to 22 matching shares from 2009 to reflect the bonus element of the Rights Issue). Both partnership shares and matching shares are held in a trust. Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date. Matching shares vest unconditionally for employees after being held for three years in the trust. Vesting of matching shares is also subject to continued employment within the Group (except where permitted by the rules of the scheme). Matching shares are valued at the market price at the grant date. Details of the fair values of awards granted and related assumptions are included in section (c) below.

A reconciliation of matching shares held in trust is as follows:

	2008	2007
	Number (i)	Number (i)
Unvested at start of period	<u>2,254,786</u>	2,079,338
Granted	167,858	520,458
Shares sold and transferred out of the plan	(142,920)	(242,782)
Forfeited	<u>(104,429)</u>	<u>(102,228)</u>
Unvested at end of period	<u>2,175,295</u>	<u>2,254,786</u>

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

For shares released during the period, the weighted average share price at the date of release adjusted to reflect the bonus element of the Rights Issue was £2.77 (2007 restated: £3.33).

Notes to the financial statements (continued)

18 Share-based payments (continued)

(b) Fair values and associated details of options granted

	Sharesave		ESOS	
	2008	2007	2008	2007
Number of options originally granted	3,482,130	2,374,080	–	–
Number of options originally granted – adjusted for Rights Issue ⁽ⁱ⁾	3,876,571	2,667,127	–	–
Weighted average fair value at grant date	£0.72	£1.17	£0.68	–
Weighted average fair value at grant date adjusted for Rights Issue ⁽ⁱ⁾	£0.64	£1.05	£0.60	–
Weighted average share price at grant date	£3.05	£3.91	£3.27	–
Weighted average share price at grant date adjusted for Rights Issue ⁽ⁱ⁾	£2.71	£3.48	£2.91	–
Weighted average exercise price at grant date	£2.55	£2.91	£2.88	–
Weighted average exercise price adjusted for Rights Issue ⁽ⁱ⁾	£2.27	£2.59	£2.56	–
Expected volatility ⁽ⁱⁱ⁾	23%	22%	23%	–
Contractual option life	4.2 years	4.0 years	10 years	–
Expected life	3.9 years	3.5 years	5 years	–
Vesting period	3.9 years	3.5 years	–	–
Expected dividend yield	3.50%	3.70%	4.20%	–
Risk-free interest rate ⁽ⁱⁱⁱ⁾	4.07%	5.35%	4.30%	–
Expected forfeitures	30%	29%	0%	–

(c) Fair values and associated details of shares granted

2008	DMSS	LTIS	SAS	RSS	SIP
Number of equity instruments at grant date	578,884	3,528,699	384,342	99,845	204,267
Number of equity instruments at grant date adjusted for Rights Issue ⁽ⁱ⁾	650,339	3,964,266	431,784	99,845	167,858
Weighted average fair value at grant date	£2.95	£2.20	£3.05	£2.47	£3.02
Weighted average fair value at grant date adjusted for Rights Issue ⁽ⁱ⁾	£2.63	£1.96	£2.71	£2.47	£2.69
Expected performance lapses	0%	n/a	n/a	n/a	n/a
Expected dividend yield	n/a	n/a	n/a	n/a	n/a
Vesting period	4 years	3 years	2.6 years	3 years	3 years
Expected volatility ⁽ⁱⁱ⁾	n/a	22%	n/a	n/a	n/a
Expected forfeitures	25%	25%	21%	25%	0%
Risk-free rate ⁽ⁱⁱⁱ⁾	n/a	4.02%	n/a	n/a	n/a
Average volatility of FTSE 100	n/a	27%	n/a	n/a	n/a
Average cross-correlation of FTSE 100 ^(iv)	n/a	30%	n/a	n/a	n/a

2007	DMSS	LTIS	SAS	RSS	SIP
Number of equity instruments at grant date	581,531	2,376,238	338,064	197,134	633,348
Number of equity instruments at grant date adjusted for Rights Issue ⁽ⁱ⁾	653,313	2,669,551	379,793	221,467	520,458
Weighted average fair value at grant date	£2.96	£3.08	£3.91	£3.88	£3.72
Weighted average fair value at grant date adjusted for Rights Issue ⁽ⁱ⁾	£2.64	£2.74	£3.48	£3.45	£3.31
Expected performance lapses	0%	n/a	n/a	n/a	n/a
Expected dividend yield	n/a	n/a	n/a	n/a	n/a
Vesting period	4 years	3 years	2.5 years	2.2 years	3 years
Expected volatility ⁽ⁱⁱ⁾	n/a	21%	n/a	n/a	n/a
Expected forfeitures	25%	20%	20%	17%	0%
Risk-free rate ⁽ⁱⁱⁱ⁾	n/a	5.40%	n/a	n/a	n/a
Average volatility of FTSE 100	n/a	30%	n/a	n/a	n/a
Average cross-correlation of FTSE 100 ^(iv)	n/a	20%	n/a	n/a	n/a

(i) Adjusted to take account of the bonus element of the Rights Issue. Details of the Rights Issue are provided above.

(ii) The expected volatility is based on historical volatility over the last three years.

(iii) The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

(iv) The cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the FTSE 100 over the period commensurate with the performance period of the awards.

British Gas Trading Limited

Notes to the financial statements (continued)

19 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2008	447,162	(186,313)
Loss for the financial year	-	(145,630)
Employee share option schemes:		
Value of services provided	-	12,483
At 31 December 2008	447,162	(319,460)

The profit and loss account can be further analysed as follows:

	Capital contribution reserve £000	Other £000	Profit and loss account £000
At 1 January 2008	21,591	(207,904)	(186,313)
Loss for the financial year	-	(145,630)	(145,630)
Employee share option schemes:			
Value of services provided	12,483	-	12,483
At 31 December 2008	34,074	(353,534)	(319,460)

The share option reserve has been renamed the capital contribution reserve.

20 Reconciliation of movements in shareholder's funds

	2008 £000	2007 £000
At 1 January	1,060,849	541,908
(Loss) / Profit for the financial year	(145,630)	509,394
Employee share option schemes:		
Value of services provided	12,483	9,547
At 31 December	927,702	1,060,849

21 Commitments and contingencies

	2008 £000	2007 £000
a) Commitments in relation to the acquisition of intangible assets		
Renewable obligation certificates	1,057,716	1,074,697
Carbon emissions certificates	398,999	224,436
Certified emission reduction certificates	139,013	99,755
Other	5,000	-
	1,600,728	1,398,888
b) Commitments in relation to other contracts		
Transportation capacity	762,357	423,991
LNG capacity	782,725	754,145
Carbon emission reduction target measures	65,625	13,500
Outsourcing of services	21,276	29,042
Other	70,879	43,307
	1,702,862	1,263,985

Notes to the financial statements (continued)

21 Commitments and contingencies (continued)

c) Lease commitments

At 31 December the non-cancellable operating lease commitments of the Company, for plant, equipment and vehicles, are analysed by the period in which the lease expires as follows:

	2008	2007
	£000	£000
Within one year	631	517
Between two and five years	4,623	3,137
	<u>5,254</u>	<u>3,654</u>

d) Pensions

The majority of the Company's UK employees as at 31 December 2008 were members of two of the three main schemes in the Centrica plc Group: the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These are defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS 17, these schemes have been treated as defined contribution schemes. The aggregate contributions to the schemes during the year were £82,723,909 (2007: £62,138,274). The amount outstanding at the balance sheet date was £nil (2007: £nil). The latest actuarial valuation of the schemes, updated for the purposes of FRS 17 show a total deficit of £96 million (£70 million deficit net of deferred tax) (2007: £35 million deficit (£25 million deficit net of deferred tax)). These pension schemes are included on a consolidated basis within the group accounts of Centrica plc as prepared under IFRS.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on funding valuations carried out at least triennially, the last of which was as at 31 March 2006.

e) Guarantees and indemnities

In connection with the Centrica Group's energy trading, transportation and upstream activities, certain Centrica Group companies, including British Gas Trading Limited, have entered into contracts under which they may be required to prepay or provide credit support or other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration. In connection with Centrica Group's corporate activities certain Centrica Group companies, including British Gas Trading Limited, have entered into contracts under which they recognise their support for certain security obligations granted to third parties.

f) Commodity purchase contracts

The Centrica Group procures gas and electricity through a mixture of production from Centrica-owned gas fields and power stations and external procurement contracts.

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas contracts indexed to market prices and long-term gas contracts with non-gas indexation. Further information about the Centrica Group's procurement strategy is contained in note 36 of the Centrica plc 2008 Annual Report and Accounts.

Commodity purchase commitments are estimated, on an undiscounted basis, as follows (excluding contracts with other Centrica group companies):

	2008	2007
	£000	£000
Within one year	12,446,797	7,730,835
Between one and five years	21,747,645	17,308,996
After five years	9,922,257	8,193,031
	<u>44,116,699</u>	<u>33,232,862</u>

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The resulting monetary commitment is based on the minimum quantities of gas that the Centrica Group is contracted to pay at estimated future prices. Contractual commitments which are subject to fulfilment of conditions precedent are excluded.

Notes to the financial statements (continued)

22 Financial instruments

Certain procurement contracts and sales contracts constitute derivative financial instruments. These contracts are accounted for under the accrual method. Amounts payable or receivable in respect of these derivatives are recognised within cost of sales (for procurement contracts) and revenue (for sales contracts). Changes in the derivatives' fair value are not recognised.

In accordance with Statutory Instrument 04/2947 of the Companies Act 1985, the fair values of the Company's derivative financial instruments are analysed below. These amounts are not included in the Balance Sheet as the Company has not early adopted FRS26 "Financial Instruments: Recognition and Measurement".

	2008 £m	2007 Restated £m
Financial instruments held for trading		
Energy derivatives - assets	1,752	943
Energy derivatives - liabilities	(2,401)	(1,025)
Energy foreign exchange swaps - assets	47	2
Energy foreign exchange swaps - liabilities	(41)	-
	<u>(643)</u>	<u>(80)</u>

The 2007 amounts have been restated by £21million from £(101) million due to an error in the original calculations.

23 Post balance sheet events

On 25 February 2009, the Company terminated an out of the money gas sales contract with Deutsche Bank AG through a payment of £139.2 million which represents the difference between the sales contract price and market price at the date of termination. The amount included in the sales contract loss provision as at 31 December 2008 in respect of the post-termination portion of this contract was £48.6 million which is based on the difference between the sales contract price and the least cost of gas available to the Company (see note 16). The difference of £90.6 million between the termination payment and the year end provision is therefore due to the difference between market price at termination and the least cost of gas. The provision will be released in 2009.

On 11 May 2009 the Group announced its intention to acquire a 20% interest in Lake Acquisitions Limited, the owner of British Energy Group plc ("BE"), for £2.2billion, from EDF SA ("EDF Group"), to sell to the EDF Group its 51% interest in SPE SA for £1.1billion, and to participate in a new nuclear building programme through a joint venture arrangement of which the Group's share is up to 20%. The deal is subject to shareholder and regulatory approval. As part of this deal the Company would be party to various power purchase agreements ("PPAs") which would entitle the Company to the Group's pro-rata share of BE's output and, in addition, 18TWh of power from the EDF Group (over five years from 2011) at market prices. The financial impact of these PPAs would depend on a number of variables including power prices and the output from BE's nuclear power stations.

24 Ultimate parent undertaking and controlling party

The immediate parent undertaking is GB Gas Holdings Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated statements. Copies of the 2008 Annual report and Accounts of Centrica may be obtained from www.centrica.com.