Registered number: 03078711

British Gas Trading Limited

Annual Report and Financial Statements
for the year ended 31 December 2011

Contents

The Directors present their report and the audited financial statements of British Gas Trading Limited (the 'Company') for the year ended 31 December 2011

Principal activities
The principal activities of the Company are maximising value from long term gas and power procurement contracts and the provision of gas and electricity to homes and businesses in the United Kingdom

Review of business and future developments
The downstream business faced very difficult market conditions in 2011 Sharply rising wholesale commodity prices in the first half of the year meant that the UK residential energy supply business had become loss making, necessitating a significant increase in retail tariffs in August Record mild weather, both in the Spring and in the Autumn, led to a 21% reduction in average household gas consumption and a 4% fall in average electricity consumption As a result, the average domestic customer bill was some 4% lower in 2011 than the year before, despite the increase in unit prices The Company continues to broaden and develop its relationship with British Gas Services Limited, offering customers combined energy and services products

The midstream business recorded exceptional charges in cost of sales of £288,996k in respect of onerous contracts £177,496k of these charges related to onerous power station tolling agreements between the Company and other group undertakings The remaining £111,500k was recorded for a number of onerous European gas transportation capacity contracts, which are no longer utilised by the business following the Group's decision to exit Europe and close its German wholesale business

The Company's priority is to maintain the efficiency of the business and to benefit fully from our scale and brand, while maintaining high levels of customer service We remain committed to leading the industry in energy efficiency and enabling new technologies

The Company realised that it would not be able to pass through all of the commodity price increases outlined above to its customers As a result, the Company also reviewed its cost base as part of the commitment to remaining competitive and efficient and an exceptional charge of £102,782k was recognised in the year Of this a charge of £63,100k relates to the migration of a significant supplier contract following its termination in December 2010 Additionally, an exceptional restructure charge of £39,682k was recorded mainly relating to staff reductions following a Group-wide cost reduction programme, which is expected to take two years to complete

On 3 June 2011 the Company acquired a 50% share in Fairfield Bio Energy Ltd for consideration of £1 On the same date the Company entered into a Joint Venture Agreement with Bio Group Ltd and Fairfield Bio Energy Ltd During the year the Company made cash call payments totalling £2,946k

On 31 December 2011, as part of an internal reorganisation, British Gas Trading Limited purchased 100% of the share capital of Hillserve Limited from GB Gas Holdings Limited in exchange for an intercompany receivable of £5,385k On the same date, the Company also purchased from GB Gas Holdings Limited the trade and assets of ECL Investments Limited which included the trade and assets of ECL Contracts Limited in exchange for an intercompany receivable of £4,205k Following the transfer Hillserve Limited and ECL Investments Limited declared and paid an interim dividend of £12,214k and £2,891k to the Company respectively The trading of these companies will be taken on in British Gas Trading Limited from this date

Results and dividends
The results of the Company are set out on page 7

The profit on ordinary activities after taxation for the year ended 31 December 2011 is £1,874,953k (2010 profit £ 554,868k)

On 27 September 2011 the Company received a dividend of £1,600,000k from Hydrocarbon Resources Limited (2010 £nil) Subsequently, the Company paid an interim dividend of £800,000k on 28 September 2011 to its immediate Parent undertaking, GB Gas Holdings Limited (2010 £nil) The Directors do not recommend the payment of a final dividend (2010 £nil)

Financial position
The financial position of the Company is presented in the Balance Sheet on page 8 Shareholder funds at 31 December 2011 were £3,068,234k (2010 £1,978,676k)

Principal risks and uncertainties and financial risk management
The key risks and uncertainties of the Company are the global economic downturn, demand reduction and exposure to movements in commodity prices 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 36-40 of the 2011 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

Principal risks and uncertainties and financial risk management (continued)
Certain procurement 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 26 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 Management continue to recognise the potential impact from the economic downturn on existing debt and the Company maintains its program for improved credit management and cash collection processes to mitigate the bad debt risk

Energy consumption continues to fall, driven by improved energy efficiency and changing customer behaviours as a result of greater environmental awareness, fallout from past price increases and latterly the general economic downturn Reduced sales of gas and electricity could have a significant impact on the Company's revenues and profits over the next decade 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 (KPIs)
The Directors monitor performance of the individual business units that constitute British Gas Trading Limited KPIs relating to these business units such as the number of customer accounts, market share, consumption volumes and operating margins are included in the Group's 2011 Annual Report and Accounts on page 132 and 133 Additionally, the Group's KPIs such as customer trust and employee engagement are also measured at the Company level and these are included at group level in the Group s 2011 Annual Report and Accounts on pages 12 and 13

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

P K Bentley
V M Hanafin
D Isenegger
C T P Jansen
C J Stern
I P Cain (appointed 7 February 2011)
A Netemeyer (appointed 7 February 2011)
J Forster (appointed 1 January 2012)
M R Uzielli (appointed 28 May 2012)
I Wood (resigned 7 February 2011)
M J Rowlands (resigned 12 December 2011)
A C J Cameron (resigned 28 May 2012)

Directors' and officers' liability
In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and officers Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2011 and remain in force

The Company also maintains directors and officers' liability insurance for its Directors and officers which 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

Related party transactions
The Company has taken advantage of the exemptions within FRS 8 "Related party disclosures" from disclosure of transactions with other wholly-owned Centrica Group companies Except for any related party disclosures disclosed in the Group's 2011 Annual Report and Accounts, there have been no other disclosable related party transactions during the year (2010 £nil) Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on terms equal to those for other employees of the Group

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 2011 was 48 days (2010 57 days)

Employment policies
During 2011, the Company employed an average of 13,575 people all employed in the United Kingdom (2010 11,104 people) The disclosures surrounding the 'Employee costs and the Average number of employees during the year (see note 5) relate to the Group's 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 Group companies The Directors believe that the disclosures given are the fairest representation of the staff costs for the business

Employment policies (continued)
The Company is committed to regular communication and consultation with employees through briefings, meetings, emails, information screens, annual roadshows with senior management, a Group-wide intranet and internal magazines and newspapers The Company aims to create an environment in which employees are fully engaged with the business objectives

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 The Company is committed to offering equal opportunities to all people with disabilities, ensuring that there is no discrimination in recruitment, promotion, training, working conditions or dismissal, subject to health and safety considerations If employees become disabled while in employment the Company offers, whenever possible, appropriate support, retraining, equipment and facilities to enable their employment to continue

During 2011, the Group continued to build a strong safety culture, embedding safe behaviours and making sure each of the businesses has the right systems in place to manage and address safety risks In 2011, the Group provided the necessary support and training framework for the top managers to help them understand the changes expected and their leadership role in achieving them This extended to managers within British Gas Trading Limited

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

Political and charitable donations
Donations made to various charitable organisations during the year amounted to £481k (2010 (restated) £35,300k) The prior year has been restated to exclude an amount related to the £50 credit for Essential tariff customers which was credited directly to customers and not to a charitable organisation Included in 2010 charitable donations is an amount of £20,000k to the British Gas Energy Trust which supports vulnerable customers and a £15,000k donation to the Energy for Tomorrow Trust There were no political donations made during the year (2010 £nil)

Statement of directors' responsibilities
The Directors are responsible for preparing the Directors 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) Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to

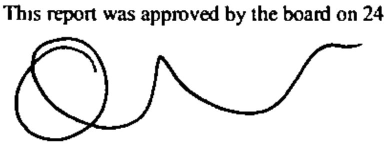
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006 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 that they have taken all the 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

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 24 September 2012



For and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No 03078711
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 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 5 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications in our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Marguerita Martin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

24 September 2012

Profit and Loss Account for the year ended 31 December 2011

	Note	2011 £000	2010 £000
Turnover	2	**12,786,308**	12,785,220
Cost of sales before exceptional items		**(10,961,002)**	(10,690,341)
Exceptional items	3	**(288,996)**	(34,825)
Cost of sales		**(11,249,998)**	(10,725,166)
Gross profit		**1,536,310**	2,060,054
Administrative expenses before exceptional items		**(1,171,263)**	(1,344,534)
Exceptional items	3	**(102,782)**	(43,000)
Administrative expenses		**(1,274,045)**	(1,387,534)
Operating profit	4	**262,265**	672,520
Income from shares in Group undertakings	6	**1,615,105**	-
Investment income	6	**1,647**	-
Interest receivable and similar income	7	**22,553**	10,559
Interest payable and similar charges	7	**(3,581)**	(2,830)
Profit on ordinary activities before taxation		**1,897,989**	680,249
Taxation on profit on ordinary activities	8	**(23,036)**	(125,381)
Profit on ordinary activities after taxation	23	**1,874,953**	554,868

There are no material differences between the profit on ordinary activities before taxation for the financial years 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, and therefore no separate statement of total recognised gains and losses has been presented

All activities relate to continuing activities

Balance Sheet as at 31 December 2011

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	9	**186,877**	226,846
Tangible assets	10	**443,851**	313,639
Investments - shares in subsidiary undertakings	11	**1,249,047**	1,247,162
Investments - associates and joint ventures	12	**2,946**	-
Investments - other	13	**3,782**	3 342
		1,886,503	1,790,989
Current assets			
Stocks	14	**186,397**	136,799
Debtors (including £34,185k (2010 £59,191k) due after one year)	15,16	**3,744,344**	2,695,267
Cash at bank and in hand	17	**17,085**	15,290
		3,947,826	2,847,356
Creditors (amounts falling due within one year)	18,19	**(2,337,607)**	(2,455,482)
Net current assets		**1,610,219**	391,874
Total assets less current liabilities		**3,496,722**	2,182,863
Creditors (amounts falling due after more than one year)	19	**(3,318)**	(8,389)
Provisions for liabilities	20	**(425,170)**	(195,798)
Net assets		**3,068,234**	1,978,676
Capital and reserves			
Called up share capital	21	**800,000**	800,000
Share premium account	23	**447,162**	447,162
Profit and loss account	23	**1,821,072**	731,514
Total shareholder's funds	24	**3,068,234**	1,978,676

The financial statements on pages 7 to 25 were approved and authorised for issue by the Board of Directors on 24 September 2012 and were signed on its behalf by

M R Uzielli
Director
Company number 3078711

The notes on pages 9 to 25 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

Basis of preparation
The financial statements have been prepared on the going concern basis under the historical cost convention in accordance with United Kingdom Accounting Standards and the Companies Act 2006

The Company is a wholly-owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly-owned subsidiary undertaking whose ultimate parent company is 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" and s400 of the Companies Act 2006, 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 wholly-owned 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, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within debtors All turnover arises in the United Kingdom

Gas and power purchases and sales entered into to optimise the performance of gas production facilities and power generation facilities are presented net within revenue

Cost of sales
Cost of sales includes the cost of gas and electricity purchased during the period taking into account the industry reconciliation process for total gas and total electricity consumption by supplier, and related transportation, distribution, royalty costs and bought in materials and services

Exceptional items
The items that the Company separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to present a clear and consistent presentation of the Company s underlying business performance Items which may be considered exceptional in nature include disposals of businesses, business restructurings, onerous contracts and asset write-downs

Employee share schemes
The Company accounts for share-based payments under FRS 20 "Share based payments" The Centrica plc group to which British Gas Trading Limited belongs has a number of employee share schemes, detailed in the Remuneration Report on pages 52-63 and in note 32 of the Centrica plc 2011 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 equity over the vesting period, based on the Centrica plc group's estimate of the number of awards 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 TSR award	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
SAS and DMSS	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 Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction Foreign currency transactions which have not been settled at the Balance Sheet date are translated at the rate prevailing at that date

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 10 to 20 years If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is recognised through the profit and loss account in the period of disposal as part of the gain or loss on disposal

Acquisitions of a business from another group company are recorded using the principles of merger accounting prospectively from the date of the transaction Where the business is transferred from a subsidiary company, the investment in subsidiary has been reclassified to goodwill since the company has suffered no loss of value as a result of the business transfer

1 Principal accounting policies (continued)

Intangible fixed assets (continued)
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 and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits As a result no amortisation is recorded during the period Impairment of emissions allowances is recognised in cost of sales

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 and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefit As a result no amortisation is recorded during the period

Tangible fixed assets
Tangible fixed assets are included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation

In the case of investments in Customer Relationship Management ('CRM') systems and other technology infrastructure, classified as software, 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
Software	Up to 10 years

Property is carried in the Balance Sheet at cost or valuation Property is revalued by qualified valuers on a regular basis using open market value so that the carrying value of an asset does not differ significantly from its fair value at the Balance Sheet date

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 the higher of fair value less costs to sell and value in use Value in use is determined 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 An impairment loss is recognised immediately as an expense

The value in use calculations use cashflow projections based on the Group's internal Board-approved three year business plans Cash flows are discounted using a pre-tax discount rate specific to each cash-generating unit to determine the cash-generating unit's value in use, the rate used was 7 5% (2010 7 6%)

Leases
Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term 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 Investments include equity interests in a joint venture

Stocks
Stocks, excluding stocks of gas and oil and capitalised Carbon Emissions Reduction Target ('CERT) and Communities Energy Saving Programme (CESP) costs, are valued on a weighted average cost 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 CERT and CESP below

Carbon Emissions Reduction Target ('CERT') and Communities Energy Saving Programme ('CESP')
UK-licensed energy suppliers are set a Carbon Emission Reduction Target ('CERT') by the Government which is proportional to the size of their customer base The current CERT programme runs from April 2008 to December 2012 The CERT targets have been amended from April 2011, to include individual sub-targets related to insulation and non-insulation based carbon reductions UK licensed energy suppliers and electricity generators are required to contribute to the Communities Energy Saving Programme ('CESP) by the Government in proportion to the size of their customer base and also the amount of electricity they generate The current CESP programme runs from October 2009 to December 2012

The targets and contributions are subject to an annual adjustment throughout the programme period to take account of changes in the energy supplier s customer base and amount of electricity generated Energy suppliers and generators can meet the target through expenditure on qualifying projects which give rise to carbon savings The carbon savings can be transferred between energy suppliers and generators

1 Principal accounting policies (continued)

Carbon Emissions Reduction Target ('CERT') and Communities Energy Saving Programme ('CESP') (continued)
The Company charges the cost of the programmes to cost of sales with a provision recognised where there is a deficit of relevant credits held compared to the sub-target obligations accrued and capitalises the costs incurred in deriving carbon savings in excess of the annual targets or contribution as stock The stock balance is valued at the lower of cost and net realisable value and may be used to meet the sub-target obligations in subsequent periods or sold to third parties The stock is included in finished goods and is carried on a weighted average basis The obligation for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process

Take-or-pay contracts
Where payments are made to external suppliers under take-or-pay obligations for gas not yet 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 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 Group as a whole The pension disclosures for the entire Centrica group are disclosed in note 29 to the Centrica plc 2011 Annual Report and Accounts

Provisions
Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, 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 and included within interest payable and similar charges

Provision 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

Provisions for long term purchase contracts
Provision is made for the net present cost, using a risk free discount rate, of expected losses on onerous long-term purchase contracts The provision is based on the difference between the contracted purchase price, including capacity payments where relevant, and the highest sales price for the expected volumetric take of commodity

Provisions for onerous contracts
The Company has entered into a number of commodity procurement and capacity contracts related to specific assets in the ordinary course of its business Where the unavoidable costs of meeting the obligations under these contracts exceed the associated, expected future net revenues, an onerous contract provision is recognised The calculation of these provisions will involve the use of estimates

The European gas transportation capacity contract onerous provision is calculated using the capacity costs incurred under the contracts, less any predicted income The current year charge assumes that all contracts are onerous for the period to 2018 but that post-2018 the remaining capacities could still be necessary to secure supply of gas into the UK Therefore no provision has been recognised relating to this latter period

The Company has entered into a number of power station tolling agreements related to specific assets in the ordinary course of its business Where the unavoidable costs of meeting the obligations under these contracts exceed the associated, expected future net revenues, an onerous contract provision is recognised The calculation of these provisions will involve the use of estimates

Dividend income
Dividend income is recognised when the right to receive payment is established

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 substantively 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 substantively enacted by the Balance Sheet date

Deferred tax is measured on a non-discounted basis

1 Principal accounting policies (continued)

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

Financial assets are included in the Balance Sheet at cost, less any provisions for impairment as necessary Ordinary shares are classified as equity Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received

The Company has not adopted FRS 26 or FRS 29 in respect of the fair value of financial instruments In accordance with the Companies Act 2006, the fair values of the Company's derivative financial instruments have been analysed in note 26

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 estimates of deemed supply is referred to as imbalance The reconciliation procedures 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 by the industry system operators 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 procedures

(iii) Recoverability of trade receivables
Provision for uncollectible trade receivables is made when there is objective evidence that the Company may not be able to collect the trade receivable

2 Segmental analysis
All turnover arose in the United Kingdom £10,597,140k (2010 £11,144,618k) of the Company s turnover relates to energy supply, the principal activity of the business Additional segmental analysis is disclosed within pages 74-78 of the Centrica plc 2011 Annual Report and Accounts

	2011 £000	2010 £000
Energy supply		
Residential customers	**7,946,180**	8,264,837
Business customers	**2,650,960**	2,879,781
	10,597,140	11,144,618
Wholesale and industrial gas sales	**2,189,168**	1,640,602
	12,786,308	12,785,220

3 Exceptional items

	2011 £000	2010 £000
Provision for onerous gas procurement contract (i)	-	34,825
Provision for onerous power station tolling agreements (ii)	177,496	-
Provision for European onerous capacity contracts (iii)	111,500	-
	288,996	34,825
Supplier contract migration (iv)	63,100	43,000
Restructuring charges (v)	39,682	-
	102,782	43,000
	391,778	77,825

(i) On 1 October 2009 an onerous contract provision was recognised for a gas procurement contract for which a two-year notice had been served to terminate Exceptional charges of £nil (2010 £34,825k) were incurred, of which £nil (2010 £77,774k) is included in provisions for other liabilities and charges at the balance sheet date (see note 20)

(ii) During 2011 an onerous contract provision was recognised for onerous power station tolling agreements between the Company and other group undertakings Exceptional charges of £177,496k (2010 £nil) were incurred, of which £177,496k is included in provisions for other liabilities and charges at the balance sheet date (see note 20)

(iii) Following the ultimate parent company's decision to exit Europe and close its German wholesale business, the Company recorded exceptional onerous contract charges of £111,500k (2010 £nil) for a number of European gas transportation capacity contracts, of which £111,500k (2010 £nil) is included in provisions for other liabilities and charges at the balance sheet date (see note 20)

(iv) Exceptional charges of £63,100k (2010 £43,000k) have been recorded during 2011 following the termination in December 2010 and subsequent migration of a significant supplier contract

(v) As a result of a Company-wide cost reduction programme leading to staff redundancies, an exceptional restructuring charge of £39,682k was recorded during 2011 (2010 £nil) Additional information is disclosed in the Business Review on page 17 of the Centrica plc 2011 Annual Report and Accounts

4 Operating profit

Operating profit is stated after charging

	Note	2011 £000	2010 £000
Amortisation of goodwill	9	7,673	7,626
Impairment of emissions allowances	9	3,118	15,281
Impairment of tangible assets	10	3,044	3,028
Depreciation			
Owned tangible fixed assets	10	41,088	42,661
Operating lease rentals			
Plant, equipment and vehicles		8,630	4,688
Auditors' remuneration			
Statutory audit		890	919

Auditors' remuneration totalling £890k (2010 £949k) relates to fees for the audit of the 2011 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 Of the auditors' remuneration £nil (2010 £30k) was borne by Centrica plc Auditors' remuneration totalling £114k (2010 £121k) in relation to non-audit work in respect of the Company has been fully borne by Centrica plc

5 Directors and employees

Average number of employees during the year

The average monthly number of employees, all employed in the United Kingdom, during the year was 13,575 compared to 11,104 for 2010 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

5 Directors and employees (continued)

	2011	2010 (restated)
	£000	£000
Employee costs		
Wages and salaries	482,211	374,023
Social security costs	47,134	36,981
Other pension and retirement benefits costs	44,984	145,229
Executive share option scheme	-	194
Long term incentive scheme	2,663	5,999
Share incentive plan	1,094	711
Employee sharesave scheme	2,315	1,810
Share award scheme	4,350	3,349
Deferred and matching share scheme	4,162	4,172
	588,913	572,468

Employee costs for 2010 have been restated to include amounts charged to cost of sales during 2010 but were omitted from the disclosure note

Directors' emoluments

The aggregate emoluments paid to directors in respect of their qualifying services were £1,470k (2010 £895k) The aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £102k (2010 £47k)

There were 6 directors (2010 6) to whom retirement benefits are accruing under a defined benefit pension schemes and 2 directors (2010 2) to whom retirement benefits are accruing under money purchase pension schemes

There were 2 directors (2010 4) who exercised share options relating to the ultimate parent company and 6 directors (2010 4) who received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme

The highest paid director received emoluments of £315k for services to the Company (2010 £330k) and the company contributed £27k (2010 £21k) to their pension scheme In both the current and prior year the highest paid director received shares in respect of qualifying services under a long-term incentive scheme and exercised share options

P K Bentley and V M Hanafin are directors of Centrica plc, the ultimate parent company Their emoluments and pension contributions in respect of their services to British Gas Trading Limited are £nil (2010 £nil) Details of their overall remuneration are included in the 2011 Centrica plc Annual Report and Accounts on pages 52 to 63

6 Investment income

	2011	2010
	£000	£000
Dividends received from group undertakings	1,615,105	-
Dividends received from other investments	1,647	-
	1,616,752	-

A dividend of £1,600,000k (2010 £nil) was received during the year from a group undertaking, Hydrocarbon Recources Limited Following the purchase of Hillserve Limited and ECL Investments Limited on 31 December 2011, dividends of £12,214k and £2,891k were received respectively

Dividend income of £1,647k was received from an investment in a carbon fund and managed account

7 Net interest

	2011	2010
	£000	£000
Interest receivable and similar income		
Notional interest arising on discounted items	-	562
Interest receivable from Group undertakings	17,289	7 940
Other interest receivable	5,264	2,057
	22,553	10,559
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	-	(21)
Notional interest arising on discounted items	(3,032)	(1,821)
Other interest payable	(549)	(988)
	(3,581)	(2,830)
Net interest receivable	18,972	7 729

8. Tax on profit on ordinary activities

(a) Analysis of tax charge in the period	2011 £000	2010 £000
The tax charge comprises		
Current tax		
United Kingdom corporation tax at 26 5% (2010 28%)	43,649	110,025
Adjustments in respect of prior years	(24,096)	6,977
Total current tax	19,553	117,002
Deferred tax		
Effect of change to deferred tax rate	582	371
Origination and reversal of timing differences	3,119	7,923
Adjustments in respect of prior years	(218)	85
Tax on profit on ordinary activities	23,036	125,381

b) Factors affecting the tax charge for the period

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK (26 5%) The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	1,897,989	680,249
Tax on profit on ordinary activities at standard UK corporation tax rate of 26 5% (2010 28%)	502,967	190,470
Effects of		
Expenses not deductible for tax purposes	1,699	1,700
Dividend income not taxable	(428,439)	-
Capital allowances in excess of depreciation	(12,742)	(8,749)
Utilisation of timing differences	7,704	792
Group relief for nil consideration	(24,916)	(68,801)
UK UK transfer pricing adjustments	(2,624)	(5,387)
Adjustment to tax charge in respect of previous periods	(24,096)	6,977
Current tax charge for the period	19,553	117,002

A number of changes to the UK corporation tax system were announced in the March 2011 and the March 2012 Budget Statements The main rate of corporation tax was reduced from 28% to 26% from 1 April 2011 and was substantively enacted on 29 March 2011 A further reduction to 25% from 1 April 2012 was substantively enacted on 5 July 2011 and is therefore taken into account in these financial statements and a further reduction to 24% from 1 April 2012 was substantively enacted on 26 March 2012 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014 Beyond the reduction to 25%, the changes had not been substantively enacted at the Balance Sheet date and, therefore are not included in these financial statements The impact of these proposed further reductions on the deferred tax balances is not expected to be material

9 Intangible fixed assets

	Goodwill £000	Emission allowances and renewable obligation certificates £000	Total £000
Cost			
1 January 2011	125,724	169,218	294,942
Additions	4,254	195,045	199,299
Disposals	-	(251,093)	(251,093)
Reclassification from investments in subsidiary undertakings (i) (note 11)	7,780	-	7,780
At 31 December 2011	**137,758**	**113,170**	**250,928**
Accumulated amortisation			
1 January 2011	(52 815)	(15,281)	(68,096)
Impairment recognised in cost of sales (ii) (note 4)	-	(3,118)	(3,118)
Charge in the year (note 4)	(7,673)	-	(7,673)
Surrender	-	14,836	14,836
At 31 December 2011	**(60,488)**	**(3,563)**	**(64,051)**
Net book value			
At 31 December 2011	**77,270**	**109,607**	**186,877**
As at 31 December 2010	72,909	153,937	226,846

(i) Goodwill arose on the acquisition of the trade and assets from subsidiary companies The acquisition was recorded on the principals of merger accounting and the investment has been reclassified to goodwill since the Company has suffered no loss of value as a result of the business transfer The acquired goodwill arises on acquisition and is amortised over 10 years from 1 January 2012 Goodwill arose as a result of the following acquisitions of trade and assets ECL Investments Limited, ECL Contracts Limited and Hillserve Limited See note 11 for further details

(ii) A £3,118k (2010 £15,281k) 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 offset by a reduction in the obligation related to emission allowances of £3,118k (2010 £15,281k) to give a net effect on the profit and loss account of £nil (2010 £nil)

	Year of acquisition	Economic life	Original cost £000	Carrying amount £000
Trade and assets of Enron Direct	2001	15	56,962	18 673
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	6,086
Trade and assets of Electricity Direct	2005	15	24,903	14,942
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34,663	25,130
Trade and assets of Cool Planet	2010	10	450	405
ECL Investments Limited and ECL Contracts Limited	2011	10	5,519	5,519
Hillserve Limited	2011	10	6,515	6,515
			137,758	**77,270**

10 Tangible fixed assets

	Freehold land and buldings £000	Software £000	Plant, equipment and vehicles £000	Total £000
Cost				
1 January 2011	-	669,214	111,670	780,884
Additions	659	140,271	34,151	175,081
Disposals	-	(3,756)	(764)	(4,520)
Transfers	-	1,725	(1,725)	-
At 31 December 2011	**659**	**807,454**	**143,332**	**951,445**
Accumulated depreciation				
1 January 2011	-	(398,880)	(68,365)	(467,245)
Impairment (note 4)	-	(3,000)	(44)	(3,044)
Charge for the year (note 4)	-	(31,932)	(9,156)	(41,088)
Disposals	-	3,756	27	3,783
At 31 December 2011	**-**	**(430,056)**	**(77,538)**	**(507,594)**
Net book value				
At 31 December 2011	659	377,398	65,794	443,851
At 31 December 2010	-	270,334	43,305	313,639

11 Fixed asset investments – shares in subsidiary undertakings

	Shares in subsidiary undertakings
Cost and net book value	**£000**
As at 1 January 2011	1,247,162
Additions	9,665
Reclassification to goodwill (note 9)	(7,780)
At 31 December 2011	**1,249,047**

The Directors believe that the carrying value of the investments is supported by their underlying net assets

During the year the Company purchased 100% of the share capital of Hillserve Limited and ECL Investments Limited from GB Gas Holdings Limited for £5,385k and £4,205k respectively Subsequent to this, as part of an internal reorganisation, the Company purchased the trade and assets of Hillserve Limited and ECL Investments Limited Prior to acquisition of ECL Investments Limited had used the principals of merger accounting to purchase the trade and assets of its subsidiary entity ECL Contracts Limited The consideration payable for the trade and assets of Hillserve Limited as £12,214k and the book value of the company was £11,083k The consideration payable by the Company for the consolidated trade and assets of ECL Investments Limited was £4,701k and the aggregate book value of the assets was £3,955k

Under the principals of merger accounting, the write down of the cost of investments was reclassified to goodwill as the Company suffered no loss of value as a result of the business transfer

At 31 December 2011 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 %
ECL Investments Limited	Dormant	United Kingdom	100 %
ECL Contracts Limited	Dormant	United Kingdom	100 %
Hillserve Limited	Non-trading	United Kingdom	100 %
Electricity Direct (UK) Limited	Dormant	United Kingdom	100 %

12 Fixed asset investments – associates and joint ventures

Cost and net book value	£000
At 1 January 2011	-
Additions	2,946
At 31 December 2011	2,946

The Directors believe that the carrying value of the investments is supported by their underlying net assets

At 31 December 2011 the Company had interests in the issued share capital of the joint ventures listed below

Joint venture	Business	Country of incorporation	Proportion of nominal value of shares held
Fairfield Bio Energy Ltd	Renewable energy	United Kingdom	50 %

On 3 June 2011 the Company acquired a 50% share in Fairfield Bio Energy Ltd for consideration of £1 On the same date the Company entered into a Joint Venture Agreement with Bio Group Ltd and Fairfield Bio Energy Ltd During the year the Company made cash call payments totalling £2,946k to Fairfield Bio Energy Ltd

13 Fixed asset investments - other

	2011 £000	2010 £000
At 1 January 2011	3,342	3,193
Additions	440	149
At 31 December 2011	3,782	3,342

During 2011 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

The directors believe that the carrying value of the investments is supported by their underlying net assets

14 Stocks

	2011 £000	2010 £000
Gas in storage	103,436	31,313
Other raw materials and consumables	12,910	9,881
Certificates held in stock	70,051	95,605
	186,397	136,799

The difference between purchase price or production cost of stocks and their replacement cost is not material

15 Debtors

	2011 Within one year	2011 After more than one year	2010 Within one year	2010 After more than one year
	£000	£000	£000	£000
Trade debtors	**919,713**	**-**	914,159	-
Accrued energy income	**887,194**	**-**	1,095,515	-
Amounts owed by group undertakings	**1,605,714**	**-**	347,361	-
Deferred tax (note 16)	**2,407**	**4,132**	3,944	6,078
Other debtors	**230,420**	**-**	152,935	-
Prepayments and other accrued income	**64,711**	**30,053**	122,162	53,113
	3,710,159	**34,185**	2,636,076	59,191
Total due within one year and due after one year		**3,744,344**		2,695,267

The amounts owed by Group undertakings include £1,648 0m (2010 £673 7m) from Centrica plc which is interest-bearing, this is off-set by £96 1m non-interest bearing amount payable (2010 £361 4m) due to Centrica plc Interest is calculated using a quarterly rate determined by Group Treasury and linked to the Group cost of funds The quarterly rates ranged between 1 71% and 2 71% per annum during 2011 (2010 1 32% and 2 11%) Interest owed by group undertakings was £nil (2010 £4 9m) from Centrica plc These balances are unsecured and payable on demand

The remaining amounts included in Group undertakings are interest-free, unsecured and repayable on demand

16 Deferred taxation

	At 1 January 2011 £000	Profit and loss charge/ (credit) £000	**At 31 December 2011 £000**
Deferred corporation tax			
- accelerated capital allowances	5,857	11,730	**17,587**
- other timing differences	(15,879)	(8,247)	**(24,126)**
	(10,022)	3,483	**(6,539)**

Deferred tax assets at 25% (2010 27%) comprise	**Amounts recognised 2011 £000**	Amounts recognised 2010 £000
Deferred corporation tax		
- accelerated capital allowances	**17,587**	5,857
- other timing differences	**(24,126)**	(15,879)
	(6,539)	(10,022)

There are no amounts of deferred tax unrecognised (2010 nil)

17 Cash

	2011	2010
	£000	£000
Cash at bank and in hand	**17,085**	15,290

18 Bank loans and overdrafts

	2011 Within one year £000	2010 Within one year £000
Bank loans and overdrafts	**19,268**	2,639

The Company's bank overdraft at the year end is unsecured and represents 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

19 Other creditors

	2011 Within one year £000	2011 After more than one year £000	2010 Within one year £000	2010 After more than one year £000
Trade creditors	**748,087**	-	714,010	-
Amounts owed to group undertakings	**226,980**	-	481,598	-
Taxation and social security	**30,237**	-	54,251	-
Other creditors	**805,867**	-	699,159	-
Accruals and deferred income				
Transportation	**92,048**	-	78,397	-
Other accruals and deferred income	**415,120**	**3,318**	425,428	8 389
	2,318,339	**3,318**	2,452,843	8 389

Included within amounts owed to Group undertakings is interest payable to Centrica plc of £nil (2010 £nil) The interest is calculated using a quarterly rate determined by Group Treasury and linked to the Group cost of funds The quarterly rates ranged between 1 71% and 2 71% per annum during 2011 (2010 1 32% and 2 11%) The interest bearing amount owed to Centrica plc at 31 December 2011 was £nil (2010 £nil)

The remaining amounts owed to Group undertakings are interest-free, unsecured and repayable on demand

	2011 Within one year £000	2011 After more than one year £000	2010 Within one year £000	2010 After more than one year £000
Total creditors	**2,318,339**	**3,318**	2,452,843	8,389
Bank loans and overdrafts	**19,268**	-	2,639	-
Total other creditors	**2,337,607**	**3,318**	2,455,482	8,389

20 Provisions for liabilities

	At 1 January 2011 £000	Unused and reversed £000	Profit and loss charge/ (credit) £000	Notional interest £000	Utilised £000	At 31 December 2011 £000
Sales contract loss provision	64,064	(10,954)	-	3,032	(2,371)	**53,771**
Renegotiation provision	26,644	-	-	-	-	**26,644**
Restructuring costs	20,100	(3,773)	102,782	-	(71,644)	**47,465**
Purchase contract loss provision	77,774	(4,854)	178,385	-	(72,920)	**178,385**
European capacity contract provision	-	-	111 500	-	-	**111,500**
Other	7,216	-	1,420	-	(1 231)	**7,405**
	195,798	(19,581)	394,087	3,032	(148,166)	**425,170**

20 Provisions for liabilities (continued)

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 The provision is expected to be utilised between 2012 and 2015

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, based on the reserves in a group of third-party fields The closing balance is expected to be part-utilised in 2012 and part-utilised in 2016

Restructuring costs
The brought forward provision represents business restructuring costs in relation to a contract termination and associated transition of activities to other third party suppliers An exceptional charge of £63,100k in respect of the contract migration was charged during 2011 (as explained in note 3) Additionally an exceptional restructuring charge of £39,682k was recorded in 2011, mainly relating to staff reductions following a Centrica plc Group-wide cost reduction programme, which is expected to take two years to complete

Purchase contract loss provision
The brought forward purchase contract loss provision relates to an onerous gas procurement contract £72,920k of this provision was utilised over the period to termination in October 2011, with the remaining £4,854k being unused and reversed on termination A charge of £889k during the year relates to two onerous gas storage contracts and is expected to be utilised during 2012 In addition, a provision of £177,496k was recorded for onerous power station tolling agreements between the Company and other group undertakings This provision is expected to be utilised during 2012

European onerous capacity contract provision
As a result of the Group's decision to withdraw from Europe, the Company recorded exceptional onerous contract charges of £111,500k for a number of European gas transportation capacity contracts (as explained in note 3) The majority of the provision is expected to be utilised by 2018

Other
The brought forward provision relates to employer's national insurance charges expected to arise at exercise dates on employee share schemes Charges in the year primarily relate to legal claims and the timing of when these might be settled is currently uncertain

21 Called up share capital

	2011 £000	2010 £000
Issued, allotted and fully paid		
800,000,100 ordinary shares of £1 each (2010 800,000,100 ordinary shares of £1 each)	**800,000**	800,000

22 Share based payments

(a) Summary of principal share-based payment plans and movements in the number of shares and options outstanding
Employee share schemes are designed to encourage participants to align their objectives with those of shareholders The Company participates in seven employee share schemes which gave rise to a charge of £14,584k (2010 £16,235k) which represents 2 5% (2010 2 9%) of employee costs Over 75% of this share-based payment charge arose from three schemes Long Term Incentive Plan (LTIS), Deferred and Matching Share Scheme (DMSS) and the Share Award Scheme (SAS)

Share Award Scheme (SAS)
Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Group Chief Executive and the Group Director, Human Resources 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 within 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 are awarded or a cash payment is 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

Long Term Incentive Scheme (LTIS)
Under the LTIS, allocations of shares in Centrica plc are generally reserved for employees at senior management level The number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) and earnings per share (EPS) growth during the three years following the grant date Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release The vesting of half of each award is made on the basis of TSR performance and is valued using a Monte Carlo simulation model The vesting of the remaining half of awards is dependent on EPS growth This is a non-market condition under FRS 20 and therefore the fair value of these awards is 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

22 Share based payments (continued)

Deferred and Matching Share Scheme (DMSS)
Awards under the DMSS are generally reserved for employees within the senior executive group 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 separate elements

a) Deferred shares
The scheme automatically requires participants to defer between 20% and 40% 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

b) 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 bonus for the year This 50% limit includes the pre-tax amount automatically deferred each year The shares may be funded directly from the employee and thus the shares do not attract an FRS 20 charge An employee who leaves prior to the vesting date will retain their investment shares

c) 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 Group economic profit performance targets Group economic profit is calculated by taking adjusted Group operating profit after tax and subtracting a charge for capital employed based on the Group's weighted average cost of capital Further information on the operation of the DMSS and related performance conditions can be found on pages 58 to 60 of the Centrica plc 2011 Annual Report and Accounts 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 will forfeit their right to the shares (except where permitted by the rules of the scheme)

A reconciliation of total number of shares allocated under these three schemes is as follows

Number of shares in thousands	2011	2010
Balance at start of year	**18,981**	15,644
Granted	**6,832**	7,055
Released (i)	**(2,715)**	(2,647)
Forfeited	**(1,155)**	(2,239)
Transfers	**(225)**	1,168
Balance at end of year	**21,718**	18,981

(i) For shares released during the period the weighted average share price was £3 30 (2010 £2 96)

(b) Fair values and associated details of shares granted under the principal schemes

			2011			2010
	SAS	LTIS	DMSS	SAS	LTIS	DMSS
Number of equity instruments granted (in thousands)	**1,319**	**4,228**	**1,285**	1,360	4,227	1,468
Weighted average fair value at grant date	**£3.32**	**£2 40**	**£3 32**	£2 97	£2 40	£3 32
Vesting period	**2 5 years**	**3 years**	**4 years**	2 5 years	3 years	4 years
Expected volatility	**n/a**	**23%**	**n/a**	n/a	30%	n/a
Expected forfeitures	**18%**	**16%**	**6%**	18%	20%	10%
Risk-free rate	**n/a**	**1 9%**	**n/a**	n/a	1 8%	n/a

23 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2011	447,162	731,514
Profit for the financial year	-	1,874,953
Dividends paid	-	(800,000)
Employee share option schemes - value of services provided	-	14,605
At 31 December 2011	447,162	1,821,072

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 2011	62,488	669,026	731,514
Profit for the financial year	-	1,874,953	1,874,953
Dividends paid	-	(800,000)	(800,000)
Employee share option schemes - value of services provided	14,605	-	14,605
At 31 December 2011	77,093	1,743,979	1,821,072

The capital contribution reserve relates to amounts arising on the issue of share options to employees

24 Reconciliation of movements in shareholder's funds

	2011 £000	2010 £000
At 1 January	1,978,676	1,407,573
Profit for the financial year	1,874,953	554,868
Dividends paid	(800,000)	-
Employee share option schemes - value of services provided	14,605	16,235
At 31 December	3,068,234	1,978,676

An interim dividend of £800,000k (2010 £nil) was paid on 28 September 2011

25 Commitments and contingencies

	2011 £000	2010 £000
a) Commitments in relation to the acquisition of intangible assets		
Renewable obligation certificates	2,150,801	1,776,595
Carbon emissions certificates	6,109	12,828
Certified emission reduction certificates	56,311	84,974
Other	14,362	17,441
	2,227,583	1,891,838

	2011 £000	2010 £000
b) Commitments in relation to other contracts		
Transportation capacity	446,574	603,591
LNG capacity	843,840	629,260
Carbon emission reduction target measures	11,562	18,960
Community energy saving programme	72,513	44,542
Levy exemption certificates	78,418	13,071
Customer loyalty points scheme	87,680	-
Outsourcing of services	36,693	69,443
Other	2,815	19,512
	1,580,095	1,398,379

25 Commitments and contingencies (continued)

c) Lease commitments
At 31 December 2011, the Company had annual commitments under non-cancellable operating leases for plant, equipment and vehicles expiring as follows

	2011	2010
	£000	£000
Within one year	547	653
Between two and five years	7,897	4,878
After five years	-	-
	8,444	5 531

d) Pensions
The majority of the Company's UK employees as at 2011 were members of two of the three main schemes in the Centrica plc Group, the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Management Pension Scheme

During the year, the Centrica plc Group announced changes to the terms of the final salary sections of the Centrica Engineers Pension Scheme and the Centrica Pension Plan with the changes taking effect from 1 January 2012 and 1 March 2012 respectively Employees' annual increases in pensionable pay will be capped to 2% and annual increases in respect of future years' service for pensions in deferment will be the lower of CPI and 2 5%

Except for the defined contribution section of the Centrica Pension Scheme, the three main pension schemes are defined benefit schemes and their assets are held in separate trustee administered funds However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated as defined contribution schemes The aggregate contributions to the schemes during the year were £45 million (2010 (restated) £145 2m) The amount outstanding at the Balance Sheet date was £nil (2010 £nil) The latest actuarial valuation of the schemes, updated for the purposes of FRS17 show a total surplus of £249m, £187m net of deferred tax (2010 a total deficit of £130m, £95m 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 2009, the 31 March 2012 valuation has not yet been completed

e) Guarantees and indemnities
In connection with the Centrica plc group's energy trading, transportation and upstream activities, certain Centrica plc 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 plc group's corporate activities, certain Centrica plc 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 plc 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 plc group's procurement strategy is contained in note 34 of the Centrica plc 2011 Annual Report and Accounts

Commodity purchase commitments are estimated, on an undiscounted basis, as follows

	2011	2010
	£000	£000
Within one year	7,603,900	6,780,087
Between one and five years	22,531,879	19,524,690
After five years	23,226,288	10,392,608
	53,362,067	36,697,385

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

26 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 until maturity

In accordance with para 37 of Schedule 1 SI 2008/410 of the Companies Act 2006, 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 adopted FRS26 Financial Instruments Recognition and Measurement"

	2011 £000	2010 £000
Financial instruments held for trading		
Energy derivatives - assets	**529,024**	1,446,757
Energy derivatives - liabilities	**(976,487)**	(650,869)
Energy foreign exchange swaps - assets	**15,268**	7,580
Energy foreign exchange swaps - liabilities	**(12,234)**	(6,476)
	(444,429)	796,992

27 Weather Hedge
The Company has a weather index call option with British Gas Services Limited No amounts were paid out under the option for the financial year, resulting in the net premium received of £2 2m (2010 paid £8 4m net of a premium of £0 2m received) This agreement expires on 30 November 2013

28 Ultimate parent undertaking
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 Centrica plc Consolidated financial statements may be obtained from www centrica com