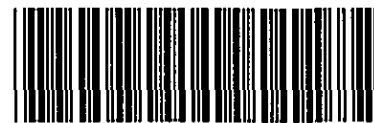


Registered number: 03078711

British Gas Trading Limited

**Annual Report and Financial Statements
for the Year Ended 31 December 2012**

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Directors' Report for the Year Ended 31 December 2012

The Directors present their report and the audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2012

Principal activities

The principal activities of the Company are the provision of gas and electricity to homes and businesses in the United Kingdom and maximising value of inter Group and external long term gas, oil and power procurement and sales contracts

Review of business and future developments

The downstream business performed well in 2012, in a weak economy and with continuing increases to the cost of supplying energy. This is having a real impact for both residential and business customers and, against this backdrop, it is important that we continue to focus on improving customer service and reducing costs. We also continue to lead the industry in smart metering, energy efficiency, help for the vulnerable, and in ensuring that our energy proposition is simple, fair and transparent.

In our residential energy supply, we delivered margins in line with our expectations, in a period where all suppliers were faced with higher wholesale gas prices and higher non-commodity costs, including the cost of upgrading the UK's gas and electricity grids and meeting carbon reduction targets. Weather conditions were cooler than usual, following unusually mild temperatures in 2011. Average gas consumption was therefore higher compared to the prior year, partially offset by efficiency measures taken by our customers, including the take-up of free insulation offers and the installation of more efficient central heating systems.

At the date of signing this report we have completed all work under the CERT and CESP programmes subject to Ofgem approval, although we did not achieve the target completion date of December 2012 for both schemes. We have delivered 102 million tonnes of carbon savings over the life of these programmes. We expect our obligations under ECO, which replaced CERT and CESP from January, to cost around £1.4 billion until the end of the programme in March 2015, substantially higher than CERT and CESP.

Performance in 2012 in a challenging economic and competitive environment has demonstrated that our business model remains sound. In residential energy supply it will be increasingly important to differentiate our offering through service excellence and innovation. Our scale and leadership in customer service, cost efficiency and systems leaves us well placed to continue to deliver a fair level of margin in this business. In business energy supply, the environment remains challenging. We are investing in our back office systems to reduce costs and improve service. Looking to the future, smart meters are a key enabler in the trend towards the 'smart connected home'. British Gas' leadership in smart metering and technology will enable us to capitalise on this trend, deepening customer relationships and differentiating our energy offer to drive long-term growth.

The Company continued to review its cost base as part of the commitment to remaining competitive and efficient. Following a Company-wide cost reduction programme, leading to staff redundancies, an exceptional restructuring charge of £91,168k (2011: £39,682k) was recorded during the year. This charge includes asset impairments of £35,753k (2011: £nil).

During 2012 the Company has continued the development of its asset backed midstream business, which trades in energy produced both inside and outside the business and manages the commodity risks arising from our assets. There has been no material change in the Midstream business since last year which remains focused on optimising gas and power assets across the value chain.

On 31 December 2012, as part of an internal reorganisation by the ultimate parent company, British Gas Trading Limited purchased 100% of the share capital of British Gas Direct Employment Limited from GB Gas Holdings Limited in exchange for an intercompany payable of £2. On the same date, the Company also purchased from GB Gas Holdings Limited the trade and assets of British Gas Direct Employment Limited in exchange for an intercompany payable of £14,944k. Following the transfer British Gas Direct Employment Limited declared and paid an interim dividend of £14,944k to the Company. The trading of this company 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 8. The profit for the financial year ended 31 December 2012 is £688,810k (2011: profit £1,957,047k). Total profits in 2012 include dividends received of £16,145k (2011: £1,616,752k).

The Company did not pay an interim dividend during the year (2011: £800,000k). The Directors do not recommend the payment of a final dividend (2011: £nil).

Financial position

The financial position of the Company is presented in the Balance Sheet on page 9. Total shareholder's funds at 31 December 2012 were £3,777,564k (2011: £3,166,701k).

Defined benefit pension accounting – prior year adjustment

The Company's employees participate in a number of the Group's defined benefit pension schemes. In prior years the Company accounted for the schemes as if they were defined contribution schemes and the charge to the Profit and Loss Account was equal to the contributions payable to the schemes in the accounting period. During 2012 the accounting policy has been amended because the Group has now identified a methodology for allocating the Company's share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis. Therefore, the Company now accounts for the schemes as defined benefit schemes, and reports a defined benefit pension asset / liability on its balance sheet. The impact of this change in accounting policy is disclosed in note 1 to the financial statements.

Principal risks and uncertainties and financial risk management

The key risks and uncertainties of the Company are the global economic downturn, demand reduction, exposure to movements in commodity prices and credit and liquidity risks. 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 44-50 of the Centrica plc 2012 Annual Report and Accounts 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 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 Centrica plc Group 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 Centrica plc 2012 Annual Report and Accounts on page 146 and 147. 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 Centrica plc 2012 Annual Report and Accounts on pages 18 and 19.

Directors

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

V M Hanafin
D Isenegger
A Netemeyer
C J Stern
M R Uzielh (appointed 28 May 2012)
J Forster (appointed 1 January 2012, resigned 19 April 2013)
H L Pijls (appointed 20 December 2012)
A C J Cameron (resigned 28 May 2012)
I P Cain (resigned 20 December 2012)
P K Bentley (resigned 30 June 2013)
C T P Jansen (resigned 30 June 2013)

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 2012 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. Transactions with entities other than wholly-owned Centrica Group companies are disclosed in note 28. 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 2012 was 28 days (2011 (restated) 24 days)

Employment policies

During 2012, the Company employed an average of 14,395 people, all in the United Kingdom (2011 13,575 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.

The Company works hard to make British Gas Trading Limited a rewarding place to work and has continued to focus on skills, development and employee engagement. Continuous learning and development is essential to ensure employees have the opportunity to fulfil their potential and are equipped to help grow the business and implement the Group strategy. The Company has talent boards, general management programmes and leadership master classes to identify and nurture high-potential managers.

The Company is committed to regular communication and consultation with employees through briefings, meetings, emails, information screens, face to face meetings 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.

During 2012, as planned, a Group-wide employee engagement survey was conducted. This process informs management of the collective views of employees so that engagement can be improved in the future.

The Company aims to provide an inclusive and diverse workplace and is committed to equal opportunity. Discrimination against any group is not tolerated. Full and fair consideration is given to applications for employment made by disabled people. If an employee becomes disabled, wherever possible support, retraining, equipment and facilities are offered to help them stay with the Company. In addition, policies are in place to help ensure there are fair promotion opportunities for disabled employees.

The Company encourages the retention and recruitment of older people, recognising the valuable experience they bring. Improving women's representation at all levels is a priority. The Company focuses on female leadership training, recruitment, flexible working and employee network groups.

Safety is one of the Group's core priorities. The Group continued to build on its safety culture through strong leadership and on-going programmes to raise awareness and reinforce a positive and proactive safety culture. Safety metrics are reported regularly to senior management and there were no significant process safety events in 2012.

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

The Company has taken advantage of the exemptions within the Companies Act 2006, from disclosing political and charitable donations where the Company is a wholly-owned subsidiary undertaking of a company incorporated in the UK. The Group's political and charitable donations are detailed on page 154 of the Centrica plc 2012 Annual Report and Accounts.

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 prepared 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.

British Gas Trading Limited

Directors' Report for the Year Ended 31 December 2012 (continued)

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

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 25 September 2013



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 2012 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, 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 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 2012 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.

Charles Bowman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

25 September 2013

British Gas Trading Limited

Profit and Loss Account for the Year Ended 31 December 2012

	Note	2012 £000	2011 (restated) (i) £000
Turnover	2	14,355,343	12,786,308
Cost of sales before exceptional items		(12,316,073)	(10,961,143)
Exceptional items	3	-	(288,996)
Cost of sales		(12,316,073)	(11,250,139)
Gross profit		2,039,270	1,536,169
Administrative expenses before exceptional items		(1,193,734)	(1,163,315)
Exceptional items	3	(91,168)	(9,048)
Administrative expenses		(1,284,902)	(1,172,363)
Operating profit	4	754,368	363,806
Income from fixed asset investments	6	16,145	1,616,752
Profit on ordinary activities before interest and taxation		770,513	1,980,558
Interest receivable and similar income	7	70,965	22,553
Interest payable and similar charges	7	(8,908)	(3,581)
Other finance income	20	16,640	9,263
Profit on ordinary activities before taxation		849,210	2,008,793
Tax on profit on ordinary activities	8	(160,400)	(51,746)
Profit for the financial year	23	688,810	1,957,047

(i) Refer to note 1

There are no material differences between the profit on ordinary activities before taxation for the financial years stated above and their historical cost equivalents

All activities relate to continuing activities

Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2012

		2012 £000	2011 (restated) (i) £000
Profit for the financial year	23	688,810	1,957,047
Net actuarial (losses)/gains on defined benefit pension schemes	20	(118,802)	69,266
Taxation on net actuarial (losses)/gains on defined benefit pension schemes	16	28,710	(17,318)
Total recognised gains and losses relating to the year		598,718	2,008,995
Prior year adjustment	1, 23	98,467	
Total gains and losses recognised since last financial statements		697,185	

(i) Refer to note 1

The notes on pages 10 to 29 form part of these financial statements

Balance Sheet as at 31 December 2012

	Note	2012 £000	2011 (restated) (i) £000
Fixed assets			
Intangible assets	9	187,695	186,877
Tangible assets	10	502,918	443,851
Investments - shares in subsidiary undertakings	11	1,249,047	1,249,047
Investments - associates and joint ventures	12	3,541	2,946
Investments - other	13	3,359	3,782
		<u>1,946,560</u>	<u>1,886,503</u>
Current assets			
Stocks	14	185,182	186,397
Debtors (including £13,110k (2011 £34,185k) due after one year)	15	4,530,051	3,744,344
Cash at bank and in hand	17	78,646	17,085
		<u>4,793,879</u>	<u>3,947,826</u>
Creditors (amounts falling due within one year)	18	(2,779,061)	(2,338,997)
Net current assets		<u>2,014,818</u>	<u>1,608,829</u>
Total assets less current liabilities		3,961,378	3,495,332
Creditors (amounts falling due after more than one year)	18	(3,318)	(3,318)
Provisions for liabilities	19	(241,204)	(424,691)
Net assets excluding pension assets / (liabilities)		<u>3,716,856</u>	<u>3,067,323</u>
Defined benefit pension assets	20	62,579	99,378
Defined benefit pension liabilities	20	(1,871)	-
Net assets including pension assets / (liabilities)		<u>3,777,564</u>	<u>3,166,701</u>
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	2,530,402	1,919,539
Total shareholder's funds	24	<u>3,777,564</u>	<u>3,166,701</u>

(i) Refer to note 1

The notes on pages 10 to 29 form part of these financial statements

The financial statements on pages 8 to 29 were approved and authorised for issue by the Board of Directors on 25 September 2013 and were signed on its behalf by



M R Uzielli
Director
Company number 03078711

1 Principal accounting policies

The following accounting policies have been applied consistently in relation to the Company's financial statements, with the exception of the change in accounting policy on defined benefit pension schemes (see page 13)

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

Critical accounting judgements and key sources of estimation uncertainty

(a) Critical judgements in applying the Company's accounting policies

Management has made the following key judgements in applying the Company's accounting policies that have the most significant effect on the Company's Financial Statements

(i) Energy Company Obligation ('ECO')

The ECO order came into force on 5 December 2012. The order required UK-licensed energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases and must be delivered by 31 March 2015. The Group judges that although targets are based on historic share of supply, it is not legally obligated by the ECO order until 31 March 2015. Accordingly, no provision has been recognised in the current year.

(ii) Metering contracts

The Department of Energy and Climate Change ('DECC') has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2019. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and therefore only recognises a provision at this point.

(iii) Carbon Emissions Reduction Target ('CERT') and Communities Energy Saving Programme ('CESP')

Under the CERT and CESP scheme, British Gas was required to meet a variety of carbon emissions reduction targets by 31 December 2012. Although we did not achieve the target completion date of December 2012 for both schemes, Ofgem has indicated that mitigating actions undertaken after this date will also be taken into account when assessing delivery. Ofgem is still to formally conclude on the Group's compliance and has the option of enforcement action if they consider the targets have not been met.

(b) Key sources of estimation uncertainty

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

(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, load forecasts 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 financial statements. 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 procedures are 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 operators deem the individual suppliers, including the Company, to have supplied to customers. Difference in 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. 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. Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days. Collectability of receivables from residential customers are generally reviewed on an individual basis once a customer discontinues their relationship with the Company. The provision for uncollectible trade receivables is based on an incurred loss model and is determined by application of expected default and loss factors, determined by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote.

1 Principal accounting policies (continued)

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be measured reliably. Turnover includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, value added tax and other sales-related taxes. Turnover is recognised on the basis of energy supplied or delivered during the year. Turnover 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 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 year taking into account the industry reconciliation process for total gas and total electricity usage 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, significant 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 61-75 and in note S7 of the Centrica plc 2012 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 retranslated at the sterling currency rate of exchange ruling at the balance sheet date. Exchange differences are recognised through the profit and loss account for the year. 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.

Goodwill

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)**EU Emissions Trading Scheme ('EU ETS') and Renewable Obligations Certificates ('ROCs')**

Granted carbon dioxide emissions allowances received in a period are recognised initially at nominal value (nil value). Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds 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.

Purchased ROCs are recognised initially 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.

For both the EU ETS and ROCs, 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 intangible assets is recognised in cost of sales. Any recycling benefit related to the submission of ROCs is recognised in the profit and loss account when received.

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.

For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads. Capitalisation begins when expenditure for the asset is being incurred and activities 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
Application software and licences	Up to 20 years

Asset impairments

Intangible and tangible fixed assets and financial assets are reviewed for impairment 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 pre-tax cash flow projections based on the Centrica plc group's Board-approved three-year business plans. The business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. 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 pre-tax discount rate used in 2012 was 7.5% (2011 7.5%).

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, Levy Exemption Certificates ('LECs') 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 LECs and CERT and CESP below.

Levy Exemption Certificates ('LECs')

Levy Exemption Certificates ('LECs') are sold to certain business customers in order for them to save Climate Change Levy ('CCL'), which was introduced in the UK following the signing of the Kyoto Protocol. LECs are held on the balance sheet as stock, to the extent more have been purchased than have been sold on to customers. LECs are held at the lower of cost and net realisable value. The cost of purchasing LECs is recognised in cost of sales when sold to the customer.

1 Principal accounting policies (continued)**Carbon Emissions Reduction Target ('CERT') and Communities Energy Saving Programme ('CESP')**

UK-licensed energy suppliers were set a Carbon Emission Reduction Target ('CERT') by the Government which was proportional to the size of their customer base. The CERT programme ran from April 2008 to December 2012. UK licensed energy suppliers and electricity generators were also 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 CESP programme ran from October 2009 to December 2012.

The targets and contributions were 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 could meet the target through expenditure on qualifying projects which give rise to carbon savings. The carbon savings could be transferred between energy suppliers and generators.

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.

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 and change in accounting policy

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in notes 29 and 36 of the Centrica plc 2012 Annual Report and Accounts.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

This is a change in accounting policy from prior years when the Company accounted for the schemes as if they were defined contribution schemes and the charge to the Profit and Loss Account was equal to the contributions payable to the schemes in the accounting period. The accounting policy has been amended because the Group has now identified a methodology for allocating the Company's share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis.

Comparative figures have been restated accordingly. The change in accounting policy increased profit after tax for the year by £62,715k (2011 £82,094k increase) and increased opening reserves by £98,467k (2011 £35,575k decrease).

The change in accounting policy has had the following effect on the comparative figures:

	As previously reported £000	Prior period adjustment £000	As restated £000
Profit and Loss account			
Cost of sales before exceptional items	(10,961,002)	(141)	(10,961,143)
Administrative expenses before exceptional items	(1,171,263)	7,948	(1,163,315)
Exceptional administrative items	(102,782)	93,734	(9,048)
Other finance income	-	9,263	9,263
Profit on ordinary activities before taxation	1,897,989	110,804	2,008,793
Tax on profit on ordinary activities	(23,036)	(28,710)	(51,746)
Profit for the financial year	1,874,953	82,094	1,957,047
Statement of Total Recognised Gains and Losses			
Net actuarial gains on defined benefit pension schemes	-	69,266	69,266
Taxation on net actuarial gains on defined benefit pension schemes	-	(17,318)	(17,318)
Balance Sheet			
Creditors (amounts falling due within one year)	(2,337,607)	(1,390)	(2,338,997)
Provisions for liabilities	(425,170)	479	(424,691)
Defined benefit pension asset	-	99,378	99,378
Profit and loss account	1,821,072	98,467	1,919,539

1 Principal accounting policies (continued)

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 provision 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.

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.

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.

Notes to the Financial Statements for the Year Ended 31 December 2012 (continued)

2 Turnover

All turnover arose in the United Kingdom. Additional segmental analysis is disclosed within pages 86 - 90 of the Centrica plc 2012 Annual Report and Accounts.

	2012	2011 (restated) (i)
	£000	£000
Residential energy supply (i)	9,004,480	7,886,052
Residential services (i)	149,994	60,128
Business energy supply and services	<u>2,859,006</u>	<u>2,650,960</u>
	<u>12,013,480</u>	<u>10,597,140</u>
Wholesale and industrial gas and power sales	<u>2,341,863</u>	<u>2,189,168</u>
	<u>14,355,343</u>	<u>12,786,308</u>

(i) To align with management responsibilities and reporting, the British Gas New Energy business has been reallocated from the Residential energy supply segment to the Residential services segment. The 2011 comparatives have been restated accordingly.

3 Exceptional items

	2012	2011 (restated)
	£000	£000
Provision for onerous power station tolling agreements (i)	-	177,496
Provision for European onerous capacity contracts (ii)	-	111,500
Exceptional cost of sales	<u>-</u>	<u>288,996</u>
Supplier contract migration (iii)	-	63,100
Restructuring charges (iv)	91,168	39,682
Pension curtailment (note 20)	-	(93,734)
Exceptional administrative expenses	<u>91,168</u>	<u>9,048</u>
	<u>91,168</u>	<u>298,044</u>

(i) During 2011 an onerous contract provision was recognised for onerous power station tolling agreements between the Company and other group undertakings.

(ii) Following the ultimate parent company's decision to exit Europe and close its German wholesale business, the Company recorded exceptional onerous contract charges in 2011 of £111,500k for a number of European gas transportation capacity contracts.

(iii) Exceptional charges of £63,100k were recorded during 2011 following the termination in December 2010 and subsequent migration of a significant supplier contract.

(iv) As a result of a Company-wide cost reduction programme, leading to staff redundancies, exceptional restructuring charges of £91,168k (2011: £39,682k) have been recorded during 2012. This charge includes asset impairments of £35,753k (2011: £nil).

4 Operating profit

Operating profit is stated after charging

	Note	2012 £000	2011 £000
Amortisation of goodwill	9	8,832	7,673
Impairment of emissions allowances	9	5,757	3,118
Impairment of tangible assets	10	42,271	3,044
Impairment - other investments	13	1,672	-
Depreciation			
Owned tangible fixed assets	10	52,197	41,088
Operating lease rentals			
Vehicles		11,178	8,630
Renewables - contingent rentals		2,733	-
Auditors' remuneration			
Statutory audit		<u>934</u>	<u>890</u>

Auditors' remuneration totalling £934k (2011: £890k) relates to fees for the audit of the 2012 UK GAAP financial statements 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. Auditors' remuneration totalling £290k (2011: £114k) 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 14,395 compared to 13,575 for 2011. 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.

	2012	2011 (restated)
	£000	£000
Employee costs		
Wages and salaries	499,047	482,211
Social security costs	51,571	47,134
Other pension and retirement benefits costs	31,677	37,177
Other pension and retirement benefits costs - exceptional curtailment gain (note 20)	-	(93,734)
Share scheme costs	11,940	14,584
	<u>594,235</u>	<u>487,372</u>

Directors' emoluments

The aggregate emoluments paid to directors in respect of their qualifying services were £1,553k (2011: £1,470k). The aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £100k (2011: £102k).

There were 7 directors (2011: 6) to whom retirement benefits are accruing under a defined benefit pension scheme and 2 directors (2011: 2) to whom retirement benefits are accruing under money purchase pension schemes.

There were 4 directors (2011: 2) who exercised share options relating to the ultimate parent company and 9 directors (2011: 6) 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 £295k for services to the Company (2011: £315k) and the Company contributed £7k (2011: £27k) to their pension scheme. The highest paid director is accruing benefits under a defined benefit pension scheme; the accrued value at the balance sheet date was £12k (2011: £26k). In both the current and prior year the highest paid director received shares in respect of qualifying services under a long-term incentive scheme. In the current year the highest paid director did not exercise share options (2011: options were exercised by the highest paid director).

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 (2011: £nil). Details of their overall remuneration are included in the 2012 Centrica plc Annual Report and Accounts on pages 61 to 75.

6 Income from fixed asset investments

	2012	2011
	£000	£000
Dividends received from group undertakings	14,944	1,615,105
Dividends received from other investments	<u>1,201</u>	<u>1,647</u>
	<u>16,145</u>	<u>1,616,752</u>

Following the purchase of British Gas Direct Employment Limited on 31 December 2012, a dividend of £14,944k was received (2011: £nil). No dividends were received from Hydrocarbon Resources Limited, Hillserve Limited and ECL Investments Limited (2011: £1,600,000k, £12,214k and £2,891k respectively).

Dividend income of £1,201k was received from an investment in a carbon fund and managed account (2011: £1,647k).

Notes to the Financial Statements for the Year Ended 31 December 2012 (continued)

7 Net interest

	2012 £000	2011 £000
Interest receivable and similar income		
Interest receivable from Group undertakings	59,515	17,289
Other interest receivable	<u>11,450</u>	<u>5,264</u>
	<u>70,965</u>	<u>22,553</u>
Interest payable and similar charges		
Notional interest arising on discounted items	(6,477)	(3,032)
Other interest payable	<u>(2,431)</u>	<u>(549)</u>
	<u>(8,908)</u>	<u>(3,581)</u>
Net interest receivable	<u>62,057</u>	<u>18,972</u>

8 Tax on profit on ordinary activities

	2012 £000	2011 (restated) £000
(a) Analysis of tax charge in the year		
The tax charge comprises		
Current tax		
United Kingdom corporation tax at 24.5% (2011 26.5%)	162,683	43,649
Adjustments in respect of prior years	<u>(26,180)</u>	<u>(24,096)</u>
Total current tax	<u>136,503</u>	<u>19,553</u>
Deferred tax		
Effect of change to deferred tax rate	(2,624)	(128)
Origination and reversal of timing differences	12,724	32,539
Adjustments in respect of prior years	<u>13,797</u>	<u>(218)</u>
Tax on profit on ordinary activities	<u>160,400</u>	<u>51,746</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK 24.5% (2011 26.5%). The differences are explained below

	2012 £000	2011 (restated) £000
Profit on ordinary activities before tax	849,210	2,008,793
Tax on profit on ordinary activities at standard UK corporation tax rate of 24.5% (2011 26.5%)	208,056	532,330
Effects of		
Expenses not deductible for tax purposes	10,097	1,699
Dividend income not taxable	(4,365)	(428,439)
Depreciation in excess of capital allowances	1,547	(12,742)
Utilisation of timing differences	(16,282)	(21,659)
Group relief for nil consideration	(38,882)	(24,916)
UK UK transfer pricing adjustments	2,512	(2,624)
Adjustments in respect of prior years	<u>(26,180)</u>	<u>(24,096)</u>
Current tax charge for the year	<u>136,503</u>	<u>19,553</u>

The main rate of corporation tax was reduced from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013, enacted under Finance Act 2012. Further reductions to the main rate were proposed in the Autumn Statement 2012 and the Budget Statement 2013 to respectively reduce the rate to 21% by 1 April 2014 and to 20% by 1 April 2015. Beyond a reduction to 23% from 1 April 2013, the changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The impact of the proposed changes to the financial statements is not expected to be material.

9 Intangible fixed assets

	Goodwill (i) £000	Emission allowances and renewable obligation certificates £000	Total £000
Cost			
1 January 2012	137,758	113,170	250,928
Additions (i)	977	222,949	223,926
Disposals	(450)	(211,677)	(212,127)
At 31 December 2012	138,285	124,442	262,727
Accumulated amortisation			
1 January 2012	(60,488)	(3,563)	(64,051)
Impairment recognised in cost of sales (ii)	-	(5,757)	(5,757)
Charge in the year (note 4)	(8,832)	-	(8,832)
Disposal/Surrender	45	3,563	3,608
At 31 December 2012	(69,275)	(5,757)	(75,032)
Net book value			
At 31 December 2012	69,010	118,685	187,695
As at 31 December 2011	77,270	109,607	186,877

Goodwill arose as part of the following acquisitions

	Year of acquisition	Economic life	Original cost £000	Carrying amount £000
Trade and assets of Enron Direct	2001	15	56,962	14,875
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	5,648
Trade and assets of Electricity Direct	2005	15	24,903	13,282
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34,663	23,397
ECL Investments Limited and ECL Contracts Limited	2011	10	5,519	4,967
Hillserve Limited	2011	10	6,515	5,864
British Gas Direct Employment Limited	2012	10	977	977
			138,285	69,010

(i) Goodwill of £977k arose on the acquisition of the trade and assets from British Gas Direct Employment Limited, a subsidiary company. The acquisition was recorded on the principals of merger accounting. The investment of £2 has been reclassified to goodwill since the Company has suffered no loss of value as a result of the business transfer.

(ii) A £5,757k (2011: £3,118k) 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 emissions allowances of £5,757k (2011: £3,118k) to give a net effect on the profit and loss account of £nil (2011: £nil).

10 Tangible fixed assets

	Software £000	Plant, equipment and vehicles £000	Total £000
Cost			
1 January 2012	807,454	143,991	951,445
Additions	135,914	23,366	159,280
Disposals	(10,107)	(8,157)	(18,264)
At 31 December 2012	933,261	159,200	1,092,461
Accumulated depreciation			
1 January 2012	(430,056)	(77,538)	(507,594)
Impairment	(40,991)	(1,280)	(42,271)
Charge for the year	(41,594)	(10,603)	(52,197)
Disposals	8,185	4,334	12,519
At 31 December 2012	(504,456)	(85,087)	(589,543)
Net book value			
At 31 December 2012	428,805	74,113	502,918
At 31 December 2011	377,398	66,453	443,851

11 Fixed asset investments – shares in subsidiary undertakings

	Shares in subsidiary undertakings £000
Cost and net book value	
As at 1 January and 31 December 2012	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 British Gas Direct Employment Limited from GB Gas Holdings Limited for £2. Subsequent to this, as part of an internal reorganisation, the Company purchased the trade and assets of British Gas Direct Employment Limited at book value. The consideration payable for the trade and assets of British Gas Direct Employment Limited was £14,944k and the aggregate book value of the net assets was £13,967k. Under the principles of merger accounting, the difference between the cost and book value of the net assets acquired was reclassified as goodwill as the Company suffered no loss of value as a result of the business transfer.

At 31 December 2012 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	Dormant	United Kingdom	100%
Electricity Direct (UK) Limited	Dormant	United Kingdom	100%
British Gas Direct Employment Limited	Dormant	United Kingdom	100%

12 Fixed asset investments – joint ventures

	Investment in joint ventures £000
Cost and net book value	
At 1 January 2012	2,946
Additions	595
At 31 December 2012	<u>3,541</u>

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

On 31 December 2012 the Company invested £100 in Centrica Finance Limited Partnership, registered in Scotland

At 31 December 2012 the Company had interests in the issued share capital of the joint venture listed below

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

During the year the Company made cash call payments totalling £595k (2011 £2,946k) to Fairfield Bio Energy Ltd

13 Fixed asset investments - other

	2012 £000
Cost and net book value	
At 1 January 2012	3,782
Additions	1,249
Impairment (note 4)	(1,672)
At 31 December 2012	<u>3,359</u>

During 2012 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. Included in additions is £1,249k (2011 £440k) related to contributions to the fund. At 31 December 2012 the carrying value of the carbon fund was impaired by £1,672k (2011 £nil)

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

14 Stocks

	2012 £000	2011 £000
Gas in storage	146,685	103,436
Other raw materials and consumables	14,606	12,910
Certificates held in stock	<u>23,891</u>	<u>70,051</u>
	<u>185,182</u>	<u>186,397</u>

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

15 Debtors

	2012 Within one year	2012 After more than one year	2011 Within one year	2011 After more than one year
	£000	£000	£000	£000
Trade debtors	976,711	-	919,713	-
Accrued energy income	1,010,961	-	887,194	-
Amounts owed by group undertakings	2,244,606	-	1,605,714	-
Other debtors	175,153	-	230,420	-
Prepayments and other accrued income	109,510	13,110	64,711	30,053
Deferred tax (note 16)	-	-	2,407	4,132
	<u>4,516,941</u>	<u>13,110</u>	<u>3,710,159</u>	<u>34,185</u>
Total due within one year and due after one year		<u>4,530,051</u>		<u>3,744,344</u>

The amounts owed by Group undertakings include £1,714,650k (2011 £1,648,000k) from Centrica plc which is interest-bearing, this is offset by £266,151k non-interest bearing amount payable (2011 £96,100k) 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 3.28% and 3.51% per annum during 2012 (2011 1.71% and 2.71%). Interest owed by group undertakings was £nil (2011 £nil) from Centrica plc. These balances are unsecured and payable on demand.

On the 21 December 2012 a £700,000k loan was made to Centrica Holdings Limited at a quarterly interest rate determined by Group Treasury and linked to the Group cost of funds (see above). The loan is repayable on demand.

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

16 Deferred taxation

	At 1 January 2012 (restated) £000	Profit and loss charge/(credit) £000	Statement of Total Recognised Gains and Losses charge/(credit) £000	At 31 December 2012 £000
Deferred corporation tax				
- accelerated capital allowances	17,587	6,107	-	23,694
- other timing differences	(24,126)	4,073	-	(20,053)
Deferred tax (asset)/liability	(6,539)	10,180	-	3,641
Deferred tax liability on net pension asset	33,126	13,717	(28,710)	18,133
Provision at end of year (i)	<u>26,587</u>	<u>23,897</u>	<u>(28,710)</u>	<u>21,774</u>

There are no amounts of unrecognised deferred tax (2011 nil).

(i) Including deferred tax on net pension asset.

17 Cash at bank and in hand

	2012 £000	2011 £000
Cash at bank and in hand	<u>78,646</u>	<u>17,085</u>

18 Creditors

	2012	2012	2011 (restated) (i)	2011
	Amounts falling due within one year £000	Amounts falling due after more than one year £000	Amounts falling due within one year £000	Amounts falling due after more than one year £000
Bank loans and overdrafts	63,738	-	19,268	-
Trade creditors	857,821	-	748,087	-
Amounts owed to group undertakings (i)	317,208	-	228,370	-
Taxation and social security	91,671	-	30,237	-
Other creditors	748,690	-	805,867	-
Accruals and deferred income				
Transportation	192,324	-	92,048	-
Other accruals and deferred income	507,609	3,318	415,120	3,318
	<u>2,779,061</u>	<u>3,318</u>	<u>2,338,997</u>	<u>3,318</u>

(i) Restated for the change in accounting policy in respect of defined benefit pensions which increased amounts owed to Group undertakings by £1 390k

The Company's bank overdraft at the year end is unsecured. Centrica plc's treasury department pools funds daily and via intercompany accounts. All interest charges payable on the bank overdraft during the year are borne by the parent undertaking.

Amount owed to Group undertakings has been restated for the change in accounting policy in respect of defined benefit pensions, increasing the 2011 amounts owed by £1,390k.

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

19 Provisions for liabilities

	At 1 January 2012 (restated) £000	Unused and reversed £000	Profit and loss charge £000	Notional interest £000	Utilised £000	Transfers £000	At 31 December 2012 £000
Sales contract loss provision	53,771	(9,468)	-	2,636	(1,617)	-	45,322
Renegotiation provision	26,644	-	-	-	-	-	26,644
Restructuring costs (i)	46,986	(3,132)	58,547	-	(25,188)	(11,382)	65,831
Purchase contract loss provision	178,385	-	1,600	-	(178,385)	-	1,600
European capacity contract provision	111,500	-	-	3,841	(22,797)	-	92,544
Deferred tax (ii) (note 8)	-	-	10,180	-	-	(6,539)	3,641
Other	7,405	(1,941)	1,816	-	(1,658)	-	5,622
	<u>424,691</u>	<u>(14,541)</u>	<u>72,143</u>	<u>6,477</u>	<u>(229,645)</u>	<u>(17,921)</u>	<u>241,204</u>

(i) Included in the brought forward restructuring provision is a restatement of (£479k) as a result of the change in accounting policy in respect of defined benefit pensions. During 2012, £11 382k was transferred from restructuring provisions to pension liabilities in respect of changes to employee pension benefits.

(ii) Excluding deferred tax on pension asset (see note 20). During 2012, £6 539k was transferred from debtors in respect of the 2011 deferred tax asset.

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 by the end of 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 utilised in 2016.

19 Provisions for liabilities (continued)**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 of £20,100k and a restructuring provision relating to staff reductions following a Centrica plc Group-wide cost reduction programme of £26,886k. An exceptional charge of £57,583k in respect of further cost reduction programmes and £964k in respect of a contract termination was recognised during the year, both of which are expected to take one year to complete. This exceptional charge is offset by £3,132k restructuring provision release.

Purchase contract loss provision

The brought forward purchase contract loss provision relates to onerous gas storage contracts and onerous power station tolling agreements between the Company and other group undertakings both have been utilised during the year. A charge of £1,600k during the year relates to an onerous gas storage contract which is expected to be utilised during 2013.

European onerous capacity contract provision

Following the Group's decision to withdraw from Europe in 2011 the Group recognised a provision relating to a number of European gas transportation capacity contracts. During the year £22,797k was utilised and £3,841k notional interest was charged. The remainder 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.

20 Pensions

The accounting policy in respect of defined benefit pension schemes has been changed in the year (see note 1). Comparatives have been restated accordingly.

(a) Summary of main schemes

The Company's employees participate in the following defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), Centrica Engineers Pension Scheme (CEPS) and Centrica Unfunded Pension Scheme. Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in notes 29 and S6 of the Centrica plc 2012 Annual Report and Accounts.

The CPP, CPS and CEPS form the majority of the Company's defined benefit obligation and are referred to below and in the Centrica plc 2012 Annual Report and Accounts as the 'Registered Pension Schemes'.

(b) Curtailment gains

During 2011, Centrica plc announced changes to the terms of the final salary sections of the CEPS and the CPP. Further details are provided in Note 29 to the Centrica plc 2012 Annual Report and Accounts. The total gains of £333 million have been apportioned to the Company in proportion to ordinary employer contributions in the prior accounting year. This results in a gain of £93,734k in the Company's restated profit and loss account.

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are provided in note 29 of the Centrica plc 2012 Annual Report and Accounts.

(d) Movement in the year

	2012 Pension liabilities	2012 Pension assets	2011 Pension liabilities (restated)	2011 Pension assets (restated)
	£000	£000	£000	£000
1 January	(1,439,983)	1,572,487	(1,520,991)	1,473,210
Items included in the Profit and Loss account				
Current service cost	(23,181)	-	(32,181)	-
Loss on curtailment	(4)	-	(499)	-
Exceptional gain on curtailment	-	-	93,734	-
Interest on scheme liabilities	(77,371)	-	(87,077)	-
Expected return on scheme assets	-	94,011	-	96,340
Other movements				
Actuarial (loss) / gain	(291,984)	173,182	76,215	(6,949)
Employer contributions	-	83,066	-	41,181
Plan participants' contributions	(7,617)	7,617	(7,944)	7,944
Benefits paid from schemes	55,839	(55,839)	39,239	(39,239)
Transfers from provisions for liabilities	(11,382)	-	(479)	-
31 December	<u>(1,795,683)</u>	<u>1,874,524</u>	<u>(1,439,983)</u>	<u>1,572,487</u>

Notes to the Financial Statements for the Year Ended 31 December 2012 (continued)

20 Pensions (continued)

(d) Movement in the year (continued)

	2012	2011 (restated)
	£000	£000
Net pension surplus	78,841	132,504
Related deferred tax liability	(18,133)	(33,126)
Net pension surplus after deferred tax	<u>60,708</u>	<u>99,378</u>
Presented in the balance sheet as		
Defined benefit pension assets	62,579	99,378
Defined benefit pension liabilities	(1,871)	-
	<u>60,708</u>	<u>99,378</u>

(e) Analysis of the actuarial (losses) / gains recognised in the Statement of Total Recognised Gains and Losses

	2012	2011 (restated)
	£000	£000
Actuarial gain/(loss) (actual return less expected return on pension scheme assets)	173,182	(6,949)
Experience gain arising on the scheme liabilities	10,810	12,929
Changes in assumptions underlying the present value of the scheme liabilities	(302,794)	63,286
Actuarial (loss)/gain to be recognised in the Statement of Total Recognised Gains and Losses (i)	(118,802)	69,266
Cumulative actuarial gains recognised in reserves at 1 January (i)	69,266	-
Cumulative actuarial (losses)/gains recognised in reserves at 31 December (i)	<u>(49,536)</u>	<u>69,266</u>

(i) Before adjustment for taxation.

(f) Pension scheme contributions

Note 29 to the Centrica plc 2012 Annual Report and Accounts provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangement set up on 31 December 2012. During the year the Group made a £37 million deficit payment and a contribution of £84 million via the asset-backed contribution arrangement of which the Company's share was £13,075k and £35,808k respectively. Under FRS 17, Retirement Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnership are recognised as scheme assets. The Company estimates that it will pay £28,385k of employer contributions during 2013 at an average rate of 21% of pensionable pay.

(g) Pension scheme assets

	2012	2011 (restated)
In £ millions	£m	£m
UK equities	322	400
Non-UK equities	1,522	1,311
Fixed-interest bonds	1,411	1,369
Inflation-linked assets	997	1,040
High-yield debt	324	292
Diversified asset funds	246	-
Property	204	163
Cash pending investment	12	36
Asset backed contribution assets	84	-
Group pension scheme assets (i)	<u>5,122</u>	<u>4,611</u>
	2012	2011 (restated)
	£m	£m
Company share of above (in £ millions)	1,875	1,572
Expected long-term rate of return on assets per annum	5.6%	6.0%

(i) Total pension schemes assets for the UK pension schemes

The basis for determining the overall expected rate of return on assets is explained in note 29 of the Centrica plc 2012 Annual Report and Accounts.

20 Pensions (continued)

(h) Histories	2012	2011
	£000	(restated) £000
History of surplus		
Plan assets	1,874,524	1,572,487
Defined benefit obligations	<u>(1,795,683)</u>	<u>(1,439,983)</u>
Pension surplus	<u>78,841</u>	<u>132,504</u>
Difference between the expected and actual return on scheme assets	<u>173,182</u>	<u>(6,949)</u>
Experience gains on scheme liabilities	<u>10,810</u>	<u>12,929</u>

21 Called up share capital

	2012	2011
	£000	£000
Issued, allotted and fully paid		
800,000,100 ordinary shares of £1 each (2011 800,000,100 ordinary shares of £1 each)	<u>800,000</u>	<u>800,000</u>

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 £11,940k (2011 £14,584k) which represents 2.0% (2011 2.5%) of employee costs (excluding exceptional pensions curtailment gain in 2011). Over 75% of this share-based payment charge arose from three schemes: Sharesave, 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 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 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.

Sharesave

Under Sharesave, the Group Board may grant options over shares in Centrica plc to all 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 and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

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.

22 Share based payments (continued)

Deferred and Matching Share Scheme (DMSS) (continued)

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 Group, and where applicable, segment 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 61 to 75 of the Centrica plc 2012 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).

23 Reserves

	2012 Share premium account £000	2012 Profit and loss account £000	2012 Total £000	2011 (restated) (i) Total £000
At 1 January as previously reported	447,162	1,821,072	2,268,234	1,178,676
Prior year adjustment (i)	-	98,467	98,467	(35,575)
1 January	447,162	1,919,539	2,366,701	1,143,101
Profit for the financial year	-	688,810	688,810	1,957,047
Dividends paid	-	-	-	(800,000)
Employee share option schemes - value of services provided	-	12,145	12,145	14,605
Actuarial (losses)/gains net of taxation	-	(90,092)	(90,092)	51,948
At 31 December	447,162	2,530,402	2,977,564	2,366,701

The profit and loss account can be further analysed as follows

	Capital contribution reserve £000	Other £000	Total profit and loss account £000
At 1 January as previously reported	77,093	1,743,979	1,821,072
Prior year adjustment (i)	-	98,467	98,467
Profit for the financial year	-	688,810	688,810
Employee share option schemes - value of services provided	12,145	-	12,145
Actuarial losses net of taxation	-	(90,092)	(90,092)
At 31 December 2012	89,238	2,441,164	2,530,402

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

(i) Restated for the change in accounting policy in respect of defined benefit pensions which reduced opening reserves as at 1 January 2011 by £35,575k, increased profit after tax for the year ended 31 December 2011 by £82,094k and increased actuarial gains net of taxation for the year ended 31 December 2011 by £51,948k

24 Reconciliation of movements in shareholder's funds

	2012 £000	2011 (restated) (i) £000
At 1 January as previously reported	3,068,234	1,978,676
Prior year adjustment	98,467	(35,575)
1 January (i)	3,166,701	1,943,101
Profit for the financial year (i)	688,810	1,957,047
Dividends paid (ii)	-	(800,000)
Employee share option schemes - value of services provided	12,145	14,605
Actuarial (losses)/gains net of taxation	(90,092)	51,948
At 31 December	3,777,564	3,166,701

(i) Refer to note 23 (i)

(ii) No dividends were paid during 2012 (2011: £800,000k interim dividend was paid on 28 September 2011)

25 Commitments and contingencies

	2012 £000	2011 £000
a) Commitments in relation to the acquisition of intangible assets		
Renewable obligation certificates	2,159,492	2,150,801
Carbon emissions certificates	17,882	6,109
Certified emission reduction certificates	20,729	56,311
Other	13,872	14,362
	<u>2,211,975</u>	<u>2,227,583</u>

	2012 £000	2011 (restated) (i) £000
b) Commitments in relation to other contracts		
Transportation capacity (i)	334,238	344,574
LNG capacity	843,995	843,840
Levy exemption certificates	76,241	78,418
Customer loyalty points scheme (i)	51,480	67,680
Outsourcing of services (i)	22,647	23,169
Other (i)	8,224	2,815
	<u>1,336,825</u>	<u>1,360,496</u>

(i) Transportation capacity commitments have been restated to exclude European Gas Supply commitments as these amounts are included in provisions for liabilities (see note 19). Commitments in relation to other contracts have been restated to exclude obligations in respect of Carbon Emission Reduction Target measures (CERTs) and Community Energy Saving Programme measures (CESPs) as provision for these amounts is included within accruals (see note 18). Customer loyalty points scheme and outsourcing of services have been restated to exclude amounts that were not British Gas Trading Limited contractual commitments.

c) Lease commitments

At 31 December 2012, the Company had annual commitments under non-cancellable operating leases for plant, equipment and vehicles expiring as follows

	2012 £000	2011 £000
Within one year	666	547
Between two and five years	4,200	7,897
After five years	-	-
	<u>4,866</u>	<u>8,444</u>

Included within operating leases expiring between two and five years are annual commitments of £1,622k (2011: £nil) which are due to Centrica Finance (UK) Limited.

d) 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, 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.

25 Commitments and contingencies (continued)**e) Commodity purchase contracts**

The Centrica plc group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity 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 33 of the Centrica plc 2012 Annual Report and Accounts.

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

	2012 £000	2011 £000
Within one year	7,571,883	7,603,900
Between one and five years	20,156,154	22,531,879
After five years	21,415,971	23,226,288
	<u>49,144,008</u>	<u>53,362,067</u>

The Company has commodity purchase commitments with other Centrica group companies which are not included in the above numbers

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 commitments disclosed above are based on the minimum quantities of gas that the Centrica Group is contracted to buy 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".

	2012 £000	2011 £000
Financial instruments held for trading		
Energy derivatives - assets	394,360	529,024
Energy derivatives - liabilities	(453,449)	(976,487)
Energy foreign exchange swaps - assets	13,536	15,268
Energy foreign exchange swaps - liabilities	(30,344)	(12,234)
	<u>(75,897)</u>	<u>(444,429)</u>

27 Weather hedge

The Company has a weather index call option with British Gas Services Limited. During 2012 the Company received an annual premium of £2,200k and an amount of £2,900k was paid out under the option to British Gas Services Limited, resulting in a net pay out of £700k (2011: An annual premium of £2,200k was received and no amounts were paid out under the option). This agreement expires on 30 November 2013.

Notes to the Financial Statements for the Year Ended 31 December 2012 (continued)

28 Related parties

During the year, the Company entered into arm's length transactions with the following related parties

Windfarm joint ventures	Nuclear associates
Barrow Offshore Wind Limited	EDF Energy Nuclear Generation Limited
Braes of Doune Wind Farm (Scotland) Limited	British Energy Trading and Sales Limited
Glens of Foudland Wind Farm Limited	
Inner Dowsing Wind Farm Limited	
Lynn Wind Farm Limited	

These transactions and associated balances are as follows

	2012	2012	2011	2011
	Wind farm joint ventures	Nuclear associates	Wind farm joint ventures	Nuclear associates
	£'000	£'000	£'000	£'000
Power sales	-	145,182	-	266,137
Sales - other	-	11,884	-	12,294
Purchase of power, ROCs and LECs	(77,862)	-	(91,634)	-
Purchase of power	-	(580,908)	-	(516,665)
Purchases - other	-	(16,800)	-	-
Amounts owed by related parties	-	8,351	-	19,305
Amounts owed to related parties	(21,782)	(73,052)	(24,246)	(64,676)

The terms of the outstanding balances related to trade receivables from related parties are typically 30 to 120 days. The balances are unsecured and will be settled in cash.

No provision for bad or doubtful debts owed by related parties was required (2011: nil).

29 Post balance sheet events

During 2013 British Gas Trading Limited (the 'buyer') signed revised tolling contracts effective from 1 January 2013 to acquire the capacity from six CCGT fleet of Power Stations (the 'generators') owned by Centrica plc group companies, which updated the basis of the pricing mechanism. Under the tolling agreements the generator will make available the generating capacity and shall deliver electricity in accordance with the buyer's instructions. The updated pricing mechanism revises the calculation of the tolling fee from a cost plus basis to a market linked price.

30 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.