Registered number 3078711

British Gas Trading Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2009

British Gas Trading Limited

Contents

British Gas Trading Limited

Directors' Report for the Year Ended 31 December 2009

The Directors present their annual report and the audited financial statements of British Gas Trading Limited (the 'Company) for the year ended 31 December 2009

Principal activities

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

Review of business and future developments

The downstream business has been restructured in 2009 bringing together the residential and business teams to focus on meeting the energy requirements of our customers, improving efficiency and the overall customer experience The Company now works closely with British Gas Services Limited to deepen the customer relationship by combining energy and services products into a single customer offering These changes will continue during 2010 and will position the Company well for further growth through improved customer retention cross selling and development of new energy related products An exceptional cost in relation to this restructuring has been recognised in 2009 and a further exceptional charge is expected in 2010

Strong growth in the market place more than offsets losses in the legacy industrial and gas supply contracts which have reduced from prior years and are expected to continue to reduce as some of the contracts expire during 2010

On 25 February 2009 a long term gas sales contract with Deutsche Bank was terminated by mutual agreement The termination fee of £139 200k has been recognised as an exceptional item within cost of sales, this is offset by the release of the brought forward sales contract loss provision for the Deutsche Bank contract of £51,000k (see note 17)

Additionally, on 1 October 2009 an onerous contract provision was recognised for a gas procurement contract for which a two-year notice had been served to terminate, resulting in exceptional charges of £199,240k

The financial position of the Company is presented in the balance sheet on page 8 Shareholder's funds at 31 December 2009 were £1 407 573k (2008 £927,702k) Included within amounts owed to group undertakings is £541,995k (2008 £1 114 836k) that is due to Centrica plc The amount payable is unsecured interest free and technically repayable on demand Centrica plc have confirmed that they intend to provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital A Special Resolution was passed by the Company's sole member on 21 December 2009 to delete all provisions of the Company's Memorandum of Association which by virtue of section 28 of the Act were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association

Results and dividends

The profit on ordinary activities after taxation for the year ended 31 December 2009 is £467 692k (2008 loss £(145,630)k) The Directors do not recommend payment of a final dividend (2008 £nil) during the year

Principal risks and uncertainties and financial risk management

The key risks and uncertainties of the Company are the global economic downturn, demand reduction and exposure to movements in commodity prices From the perspective of the Company the principal risks and uncertainties are integrated with the principal risks of the Centrica plc group ("the Group") and are not managed separately Accordingly the principal risks and uncertainties of the Group which include those of the Company are discussed on pages 29-34 of the 2009 Annual Report and Accounts of the Group which does not form part of this report

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

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

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

Certain procurement contracts and sales contracts constitute derivative financial instruments The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery Refer to note 23 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 2009 saw an economic downturn that was longer and deeper than previous recessions and there is the potential for a double-dip recession. As a result the Company experienced increased levels of bad debts and a reduction in demand Improved credit management and cash collection processes have helped to mitigate the bad debt risk

Principal risks and uncertainties and financial risk management (continued)

Energy consumption fell during the period 2005-2009 driven by improved energy efficiency and changing customer behaviours as a result of greater environmental awareness, fallout from past price increases and the general economic downturn Reduced sales of gas and electricity could have a significant impact on the Company's revenues and profits over the next decade Cash forecasts identifying the liquidity requirements of the Company are produced periodically and reviewed to ensure there is sufficient financial headroom for at least a 12 month period

Key performance indicators (KPI's)

The Directors monitor performance of the individual business units that constitute British Gas Trading Limited KPI's 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 2009 Annual Report and Accounts on pages 11 and 12 Additionally Centrica plc group KPIs such as customer satisfaction and employee engagement are also measured at the Company level and these are included at group level in the Centrica plc 2009 Annual Report and Accounts on page 9

Directors

The following served as Directors during the year and up to the date of signing the financial statements unless stated

P K Bentley	
P Roberts	(resigned 26 March 2010)
C J Stern	
M L Turner	(resigned 11 March 2010)
I Wood	
V M Hanafin	
C P A Weston	(resigned 5 May 2009)
C T P Jansen	(appointed 6 July 2009)
A C J Cameron	(appointed 11 March 2010)
M J Rowlands	(appointed 26 March 2010)

Related party transactions

The Company has taken advantage of the exemptions within FRS 8 ' Related party disclosures" from disclosure of transactions with other Centrica Group companies Except for any related party disclosures disclosed in the Centrica plc 2009 Annual Report and Accounts, there have been no other disclosable related party transactions during the year (2008 £nil) Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on terms equal to those for other employees of the Group

Creditor payment policy

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

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

The number of days' purchases outstanding as at 31 December 2009 was 45 days (2008 35 days restated)

Employment policies

During 2009, the Company employed an average of 10 088 people all employed in the United Kingdom (2008 9 855 people) The disclosures surrounding the Employee Costs' and the Average number of employees during the year' (see note 5) relate to Centrica Group employees that work in the British Gas Trading Limited business Not all of these employees have service contracts with British Gas Trading Limited because in some cases the contracts of service are with other Centrica Group companies The Directors believe that the disclosures given are the fairest representation of the staff costs for the business

The Company is committed to regular communication and consultation with employees through briefings meetings, emails, information screens, annual roadshows with senior management a Group-wide intranet and internal magazines and newspapers The Company aims to create an environment in which employees are fully engaged with the business objectives The reorganisation of the business that took place during 2009 was managed sensitively and in consultation with those involved The reorganisation has meant some redundancies but also opportunities such as increased training and recruitment in customer service areas

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents The Company is committed to offering equal opportunities to all people with disabilities ensuring that there is no discrimination in recruitment, promotion, training, working conditions or dismissal subject to health and safety considerations If employees become disabled while in employment the Company offers, whenever possible, appropriate support, retraining, equipment and facilties to enable their employment to continue

During 2009 steps were taken to embed a more proactive approach to managing health and safety across the Centrica group including British Gas Trading Limited with a particular focus on individual leadership

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way The Centrica Group, to which British Gas Trading Limited belongs encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors

Political and charitable donations
Charitable donations during the year amounted to £3 329 223 (2008 £3,649 949) This included a donation of £3,300,000 to the British Gas Energy Trust which supports vulnerable customers (2008 £3 550 000) There were no political donations made during the year (2008 nil)

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

Post balance sheet events
A joint interest held with British Gas Business Services Limited in a commercial insurance intermediary business which traded under the name Insurance-4-Business was sold to Xbridge Limited on 3 February 2010 for £400,000 British Gas Trading Limited and British Gas Business Services Limited will have no further involvment in this particular business activity

In June 2010 the company's ultimate parent company agreed with HM Customs and Excise a basis for closing a number of open taxation issues across the group Agreement at the entity level has yet to take place and it is accordingly too early to assess the extent to which the company's taxation balances might be impacted

Statement of directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors
Each of the Directors who held office at the date of approval of this Directors' report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a Directors in order 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 16 August 2010

For and on behalf of Centrica Secretaries Limited
Company secretary

Company registered in England and Wales, number 3078711
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 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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 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

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 2009 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Marguerita Martin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Thames Valley Office
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX
18 August 2010

British Gas Trading Limited

Profit and Loss Account for the Year Ended 31 December 2009

	Note	2009 £000	2008 £000
Turnover	2	**12,882,988**	12,533 432
Cost of sales before exceptional items		**(10,749,576)**	(11 635 872)
Exceptional items	3	**(287,440)**	-
Cost of sales		**(11,037,016)**	(11 635 872)
Gross profit		**1,845,972**	897 560
Administrative expenses before exceptional items		**(1,260,315)**	(1 052 299)
Exceptional items	3	**(37,680)**	-
Administrative expenses	4	**(1,297,995)**	(1,052,299)
Operating profit/(loss)		**547,977**	(154 739)
Interest receivable and similar income	6	**5,483**	17,231
Interest payable and similar charges	6	**(6,556)**	(5,265)
Profit/(loss) on ordinary activities before taxation		**546,904**	(142 773)
Tax on profit/(loss) on ordinary activities	7	**(79,212)**	(2 857)
Profit/(loss) for the financial year	20	**467,692**	(145,630)

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

There have been no recognised gains or losses during the year other than those shown in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented

All activities relate to continuing activities

British Gas Trading Limited (Registered No 3078711)

Balance Sheet as at 31 December 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	8	**244,391**	259,886
Tangible assets	9	**220,795**	209 151
Investments - shares in subsidiary undertakings	10	**1,247,162**	1 247 162
Investments - other	11	**3,193**	3 068
		1,715,541	1,719,267
Current assets			
Stocks	12	**171,604**	155 020
Debtors (including £129,686k (2008 £15,904k) due after one year)	13	**2,282,476**	2,408,363
Cash at bank and in hand		**10,601**	21 922
		2,464,681	2,585,305
Creditors (amounts falling due within one year)			
Borrowings	15	**(1,873)**	(942)
Other creditors	16	**(2,497,096)**	(3,200,070)
		(2,498,969)	(3,201 012)
Net current liabilities		**(34,288)**	(615 707)
Total assets less current liabilities		**1,681,253**	1,103,560
Creditors (amounts falling due after more than one year)			
Other creditors	16	**(24,603)**	(4 264)
Provisions for liabilities	17	**(249,077)**	(171,594)
Net assets		1,407,573	927 702
Capital and reserves			
Called up share capital	18	**800,000**	800 000
Share premium account	20	**447,162**	447 162
Profit and loss account	20	**160,411**	(319,460)
Total shareholder's funds	21	**1,407,573**	927,702

The financial statements on pages 7 to 26 were approved and authorised for issue by the Board of Directors on 16 August 2010 and were signed on its behalf by

A Cameron

A C J Cameron
Director

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

1 Principal accounting policies
The following accounting policies have been applied consistently in relation to the Company's financial statements

Basis of preparation
The financial statements have been prepared under the historical cost convention in accordance with United Kingdom accounting standards and the Companies Act 2006

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

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

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

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

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

Exceptional items
The items that the Company separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature size or incidence in order to obtain 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 renegotiation of significant 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 45-59 and in note 35 of the Centrica plc 2009 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 awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS EPS awards after 2005	Market value on the date of grant
LTIS TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS SIP, DMSS and RSS	Market value on the date of grant

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange Exchange differences are recognised through the profit and loss account Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction

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

1 Principal accounting policies (continued)

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

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

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

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

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

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

Asset impairments
Intangible and tangible fixed assets and financial assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable When a review for impairment is conducted, the recoverable amount is the higher of fair value less costs to sell and value in use Value in use is determined by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount An impairment loss is recognised immediately as an expense

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

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

Stocks
Stocks, excluding stocks of gas and oil and capitalised CERT 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 Carbon Emission Reduction Target Programme below

Carbon Emission Reduction Target Programme (CERT)
UK licensed energy suppliers are set a carbon emission reduction target by the Government which is proportional to the size of their customer base The current CERT programme runs from April 2008 to March 2011 (although the Department for the Environment and Climate Change is currently considering extending this period to the end of December 2012) The target is subject to an annual adjustment throughout the programme period to take account of changes to a UK licensed energy supplier's customer base Energy suppliers can meet the target through expenditure on qualifying projects which give rise to carbon emission savings The carbon emission savings can be transferred between energy suppliers

The Company charges the costs of the programme to cost of sales and capitalises costs incurred in deriving carbon savings in excess of the annual target as stock which is valued at the lower of cost or net realisable value and which may be used to meet the carbon emissions reduction target in subsequent periods or be transferred to third parties The stock is included in finished goods and is carried on a weighted average basis The carbon emission reduction target for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process

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

Pensions
The Company's employees participate in a number of the Group's defined benefit pension schemes The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes The pension disclosures for the entire Centrica group are disclosed in note 36 to the Centrica plc 2009 Annual Report and Accounts The charge to the Company's profit and loss account is equal to the contributions payable to the schemes in the accounting period which are based on pension costs across the Centrica Group as a whole

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

Provisions for long term sales contracts
Provision is made for the net present cost, using a risk free discount rate of expected losses on onerous long-term sales contracts The provision is based on the difference between the contracted sales price and the least cost of gas available on a stacked contract by contract basis

Taxation
Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or 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 23

Critical accounting judgements and key sources of estimation uncertainty

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

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

2 Segmental analysis

£11,131 291k (2008 £10,839,598k) of the Company s turnover relates to energy supply, the principal activity of the business Of this turnover £7 832,331k (2008 £7,776,962k) relates to the supply of energy to residential customers, and £3 298 960k (2008 £3,062 636k) relates to the supply of energy to business customers

£1 751,697k (2008 £1,693 834k) of the Company's turnover relates to wholesale and industrial gas sales All turnover relates to the Company's activities in the United Kingdom Additional segmental analysis is disclosed within pages 87-93 of the Centrica plc 2009 Annual Report and Accounts

3 Exceptional items

	2009 £000	2008 £000
Provision for onerous gas procurement contract (i)	199,240	-
Termination of long term gas sales contract (ii)	88,200	-
	287,440	-
Restructuring costs (iii)	37,680	-
	325,120	-

(i) On 1 October 2009 an onerous contract provision was recognised for a gas procurement contract for which a two-year notice had been served to terminate Exceptional charges of £199,240k have been incurred of which £159,155k is included in provisions for other liabilities and charges at the balance sheet date (see note 17)

(ii) On 25 February 2009 a long term gas sales contract with Deutsche Bank was terminated by mutual agreement The termination fee of £139 200k has been recognised as an exceptional item this is offset by the release of a brought forward sales contract loss provision of £51,000k in respect of the Deutsche Bank contract (see note 17)

(iii) Restructuring costs have been charged as a result of the integration of the downstream businesses Of the total exceptional cost, £20 818k relates to impairment of various tangible assets (see note 9) and £16 862k relates to provisions for redundancy £11 646k is included in provisions for other liabilities and charges at the balance sheet date (see note 17)

4 Administrative expenses

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

	Note	2009 £000	2008 £000
Amortisation of goodwill	8	7,632	7 628
Impairment of emissions allowances	8	35,321	30,561
Impairment of tangible assets	3, 9	20,818	-
Depreciation			
Owned tangible fixed assets	9	44,364	45,739
Operating lease rentals			
Plant, equipment and vehicles		3,978	4 216
Auditors' remuneration			
Statutory audit		948	930
Other		10	156
Loss on sale of fixed assets		43	1 439

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory accounts of British Gas Trading Limited and includes fees in relation to the audit of the IFRS group consolidation schedules for the purpose of the Centrica Group audit which also contribute to the audit of British Gas Trading Limited

5 Directors and employees

Directors' emoluments

The Directors received no emoluments in respect of their services to the Company as they were employed by other Centrica group companies (2008 £nil) The emoluments for Phil Bentley and Mark Hanafin in respect of services to the Centrica Group are disclosed in the Centrica plc 2009 Annual Report and Accounts All of the Directors, with the exception of Mark Hanafin and Melanie Rowlands, are members of the ultimate parent company's defined benefit pension scheme Mark Hanafin receives a cash salary supplement in lieu of pension provision Melanie Rowlands is a member of the ultimate parent company's defined contribution scheme (Centrica Savings Plan)

	2009 £000	2008 £000
Employee costs		
Wages and salaries	328,647	321,296
Social security costs	31,785	29 565
Other pension and retirement benefits costs	131,053	82 724
Executive share option scheme	413	476
Long term incentive scheme	5,240	4 470
Share incentive plan	531	422
Employee sharesave scheme	2,018	2 770
Share award scheme	1,568	970
Deferred and matching share scheme	2,409	2 074
	503,664	444 767

5 Directors and employees (continued)

Average number of employees during the year

The average monthly number of employees, all employed in the United Kingdom, during the year was 10 088 compared to 9 855 for 2008 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

6 Net interest

	2009 £000	2008 £000
Interest receivable and similar income		
Notional interest arising on discounted items	515	1 382
Other interest receivable	4,968	15,849
	5,483	17,231
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(4)	-
Notional interest arising on discounted items	(5,547)	(4,700)
Other interest payable	(1,005)	(565)
	(6,556)	(5,265)
Net interest (payable)/receivable	(1,073)	11,966

7 Tax on profit/(loss) on ordinary activities

	2009 £000	2008 £000
(a) Analysis of tax charge in the period		
The tax charge comprises		
Current tax		
United Kingdom corporation tax at 28% (2008 28 5%)	75,666	4341
Adjustments in respect of prior years	8,354	-
Total current tax	84,020	4 341
Deferred tax		
Effect of change to DT rate	-	-
Origination and reversal of timing differences	(4,468)	2 525
Adjustments in respect of prior years	(340)	(4 009)
Total tax on profit/(loss) on ordinary activities	79,212	2 857

(b) Factors affecting the tax charge for the period

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK (28%) The differences are explained below

	2009 £000	2008 £000
Profit/(loss) on ordinary activities before tax	546,904	(142,773)
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008 28 5 %)	153,133	(40 690)
Effects of		
Expenses not deductible for tax purposes	(229)	65,120
Utilisation of timing differences	8,981	3 111
Capital allowances in excess of depreciation	(1,961)	(3 703)
UK UK transfer pricing adjustments	(7,970)	(19,497)
Group relief for nil consideration	(76,288)	-
Adjustments to tax charge in respect of previous periods	8,354	-
Current tax charge for the period	84,020	4,341

The Standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008 Accordingly the company's profits for 2008 were taxed at an effective rate of 28 5% and the profits for 2009 are taxed at 28%

8 Intangible assets

	Goodwill £000	Emission allowances and renewable obligation certificates £000	Total £000
Cost			
1 January 2009	125,274	202,730	328,004
Additions	-	298,690	298,690
Disposals	-	(300,597)	(300,597)
At 31 December 2009	125,274	200,823	326,097
Accumulated amortisation			
1 January 2009	(37,557)	(30,561)	(68,118)
Impairment recognised in income (i) (note 4)	-	(35,321)	(35,321)
Charge for the year (note 4)	(7,632)	-	(7,632)
Disposals	-	29,365	29,365
At 31 December 2009	(45,189)	(36,517)	(81,706)
Net book value			
At 31 December 2009	80,085	164,306	244,391
At 31 December 2008	87,717	172,169	259 886

(i) A £35 3 million (2008 £30 6 million) impairment of emissions allowances was recognised within cost of sales to reflect a reduction in fair value (less costs to sell) as a result of a decrease in market prices This was offset by a reduction in the obligation related to emission allowances of £35 3 million (2008 £30 million) to give a net effect on the profit and loss account of £nil (2008 £(0 6) million)

Goodwill arose as a result 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	26,266
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	6,960
Trade and assets of Electricity Direct	2005	15	24,903	18 262
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34 663	28 597
			125,274	80,085

9 Tangible assets

	Software	Plant, equipment and vehicles	Total
	£000	£000	£000
Cost			
1 January 2009	493 355	145 033	638 388
Additions	76,107	1 181	77 288
Disposals	(720)	(4,881)	(5 601)
At 31 December 2009	**568,742**	**141,333**	**710,075**
Accumulated depreciation			
1 January 2009	(329 837)	(99,400)	(429 237)
Impairment (notes 3 & 4)	(20,600)	(218)	(20 818)
Charge for the year (note 4)	(32,715)	(11 649)	(44,364)
Disposals	600	4 539	5,139
At 31 December 2009	**(382,552)**	**(106,728)**	**(489,280)**
Net book value			
At 31 December 2009	**186,190**	**34,605**	**220,795**
At 31 December 2008	163 518	45 633	209 151

10 Investments - shares in subsidiary undertakings

Cost and net book value	**£000**
At 31 December 2008 and at 31 December 2009	**1,247,162**

At 31 December 2009 the Company had interests in the issued share capital of the subsidiary undertakings listed below

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

Income from fixed asset investments
No dividends were received during the year (2008 £nil)

11 Investments - other

	2009	2008
	£000	£000
At 1 January	**3,068**	1 804
Additions	**125**	1 264
At 31 December	**3,193**	3 068

During 2009 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

12 Stocks

	2009 £000	2008 £000
Gas in storage	50,857	75,818
Other raw materials and consumables	8,780	10,394
Finished goods for resale	111,967	68 808
	171,604	155 020

13 Debtors

	2009 Within one year £000	2009 After more than one year £000	2008 Within one year £000	2008 After more than one year £000
Trade debtors	841,205	-	865,882	-
Accrued energy income	1,077,716	-	1 277 931	-
Amounts owed by group undertakings	68,182	-	12,581	3,113
Deferred tax (note 14)	2,813	15,588	802	12,791
Corporation tax	-	-	75,659	-
Other debtors	127,150	-	125,071	-
Prepayments and other accrued income	35,724	114,098	34 533	-
	2,152,790	129,686	2 392,459	15 904
Total due within one year and due after one year		2,282,476		2 408 363

Included within amounts owed by group undertakings within one year is £55 0m (2008 £nil) that is due from Centrica (Home & Wren) Limited, £2 6m (2008 £nil) that is due from Goldfish One Limited, £0 4m (2008 £nil) that is due from Centrica Offshore UK Limited, £4 6 million (2008 £4 0 million) that is due from Centrica Resources Limited £nil (2008 £1 8 million) that is due from Centrica (BOW) Limited £0 1 million (2008 £0 1 million) that is due from Centrica Energie GmbH, £1 0 million (2008 £1 0 million) that is due from Centrica Resources (Egypt) Limited, £1 1 million (2008 £3 7 million) that is due from Centrica Resources (Nigeria) Limited £1 6 million (2008 £1 6 million) that is due from Centrica Resources (Norge) AS £1 8 million that is due from GB Gas Holdings Limited (2008 £nil million) and £nil million (2008 £0 4 million) that is due from Solar Technologies Installations Limited These amounts receivable are unsecured interest free and repayable within one year In 2008 included in amounts owed by group undertakings after more than one year was £3 1 million that was due from Centrica Resources Limited and this amount receivable was unsecured and interest free

14 Deferred taxation

	At 1 Jan 2009 £000	Profit and loss charge/ (credit) £000	At 31 Dec 2009 £000
Deferred corporation tax			
- accelerated capital allowances	(4 363)	1 722	(2,641)
- other timing differences	(9,230)	(6 530)	(15,760)
	(13,593)	(4 808)	(18,401)

Deferred tax assets at 28% (2008 28%) comprise

	Amounts recognised 2009 £000	2008 £000
Deferred corporation tax		
- accelerated capital allowances	2,641	4 363
- other timing differences	15,760	9,230
	18,401	13 593

There are no amounts of deferred tax unrecognised (2008 nil)

15 Borrowings

	2009 Within one year £000	2008 Within one year £000
Bank loans and overdrafts	1,873	942

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

16 Other creditors

	2009 Within one year £000	2009 After more than one year £000	2008 Within one year £000	2008 After more than one year £000
Trade creditors	552,381	-	932 384	-
Amounts owed to group undertakings	594,283	-	1 397 022	-
Taxation and social security	73,818	-	30 477	-
Other creditors	916,966	21,285	531,495	-
Accruals and deferred income				
Transportation	71,185	-	55,674	-
Other accruals and deferred income	288,463	3,318	253 018	4 264
	2,497,096	24,603	3,200,070	4,264

Certain reclassifications have been made in the 2008 comparatives between trade creditors, other accruals and transportation accruals with a net £nil impact

Included within amounts owed to group undertakings is £542 0 million (2008 £1,114 8 million) that is due to Centrica plc The amount payable is unsecured interest free and technically repayable on demand However Centrica plc have confirmed that they intend to provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future In particular the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company

Included within amounts owed to group undertakings is £11 7 million (2008 £98 0 million) that is due to Hydrocarbon Resources Limited £0 1 million (2008 £142 7 million) that is due to Accord Energy Limited, £3 5 million (2008 £3 4 million) that is due to Centrica Storage Limited, £18 3 million (2008 £16 8 million) that is due to Centrica SHB Limited £2 1 million (2008 £5 0 million) that is due to Centrica KL Limited, £1 3 million (2008 £0 4 million) that is due to Centrica Brigg Limited, £2 5 million (2008 £0 6 million) that is due to Centrica RPS Limited £1 6 million (2008 £1 9 million) that is due to Centrica Barry Limited, £4 2 million (2008 £12 1 million) that is due to Centrica KPS Limited £0 8 million (2008 £nil million) that is due to Centrica PB Limited, £3 2 million that is due to Venture North Sea Gas Limited (2008 £nil) and £3 0 million (2008 £1 2 million) that is due to British Gas Direct Employment Limited These amounts are due within one year are unsecured and interest free

17 Provisions for liabilities

	At 1 Jan 2009 £000	Unused and reversed £000	Profit and loss charge/ (credit) £000	Notional Interest £000	Utilised £000	At 31 Dec 2009 £000
Sales contract loss provision	140 061	(51 000)	(4,956)	5,100	(46,282)	42,923
Renegotiation provision	26 644	-	-	-	-	26,644
Restructuring costs	362	-	16 839	-	(5 555)	11,646
Purchase contract loss provision	-	-	199,240	-	(40 085)	159,155
Other	4,527	(500)	4 682	-	-	8,709
	171 594	(51,500)	215 805	5,100	(91 922)	249,077

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 closing balance is expected to be utilised by 2015 The £51 000k shown as unused relates to the termination of the Deutsche Bank contract as explained in note 3

Renegotiation provision

In previous years, the Group renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be in excess of requirements and/or at prices above likely market rates The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, based on the reserves in a group of third-party fields The closing balance is expected to be part-utilised in 2012 and part utlised in 2016

Restructuring costs

The brought forward provision represents business restructuring costs and mainly relates to staff redundancies The £16,862 charged in the year relates to the integration of the downstream businesses as explained in note 3, offset by a £23k credit in relation to brought forward restructuring costs The closing balance is mainly expected to be utilised during 2010

Purchase contract loss provision

The purchase contract loss provision relates to an onerous gas procurement contract as explained in note 3 This provision is expected to be utilised over the period to termination in October 2011

Other

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

18 Called up share capital

	2009 £000	2008 £000
Authorised		
Nil ordinary shares of £1 each (2008 1,800 000 100 ordinary shares of £1 each)	-	1 800,000
Allotted and fully paid		
800,000 100 ordinary shares of £1 each	**800,000**	800 000

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital A Special Resolution was passed by the Company s sole member on 21 December 2009 to delete all provisions of the Company's Memorandum of Association which by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association

19 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders Centrica operates nine main employee share schemes – the Deferred and Matching Share Scheme (DMSS), the Executive Share Option Scheme (ESOS) the Long Term Incentive Scheme (LTIS) Sharesave, the Share Award Scheme (SAS) the Restricted Share Scheme (RSS), the Share Incentive Plan (SIP), the Direct Energy Employee Share Purchase Plan (ESPP) (no British Gas Trading Limited employees are eligible to participate in this scheme only Centrica employees in North America) and the Deferred Bonus Plan 2009 (DBP) These are described in the Remuneration report on pages 45-59 of the Centrica plc 2009 Annual Report and Accounts There were no other share based payment transactions during the period

On 15 December 2008 Centrica plc raised proceeds of £2 2 billion, net of issue costs of £65 million, through a Rights Issue as explained in notes 30 and 32 to the Centrica plc 2009 Annual Report and Accounts The number of shares allocated to employees under the Group's share schemes has been adjusted to reflect the bonus element of the Rights Issue The terms of the Group s employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the Rights Issue Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes Details of the adjustments made to the terms of the Group's employee share schemes as a result of the Rights Issue, are provided in sections (b) and (c) below

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

DMSS

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

(i) Deferred shares

The scheme requires participants to defer between 20% and 40% (2008 20%) of their annual pre-tax bonus into the scheme The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme) All shares held in trust will be eligible to receive dividends The number of shares deferred is estimated from the participant's maximum bonus and the likelihood of bonus payout in the bonus year Subsequent revisions are made based on the actual bonus paid in the year

(ii) Investment shares

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

(iii) Matching shares

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

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

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

19 Share-based payments (continued)

DMSS (continued)

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

	2009 Number	2008 Number (i)
Outstanding at start of period	1,545,051	1 139,569
Granted	1,651,973	653,313
Forfeited	(219,488)	(62 934)
Transfer from/(to) group companies	189,277	(184,897)
Outstanding at end of period	3,166,813	1 545,051
Exercisable at end of period	–	–

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

There were no shares released during the period or in 2008

ESOS

Under the ESOS, the Board may grant options over shares in Centrica plc to employees of the Group Options are granted with a fixed exercise price equal to the market price of the shares at the legal date of grant which approximates or is the same as, the grant date for accounting purposes Awards under the ESOS are generally reserved for employees within the senior executive group Options granted under the ESOS will become exercisable in full on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by 18% or more The number of options becoming exercisable is determined on a straight-line basis between 40% and 100% if FPS growth exceeds RPI growth by between 9% and 18% The exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme) Performance conditions are non-market based and therefore not included in the fair value calculations Early exercise has been taken into account by estimating the expected life of the options

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

A reconciliation of option movements is as follows

	2009 Number	2009 Weighted average exercise price £	2008 Number (i)	2008 Weighted average exercise price (i) £
Outstanding at start of period	6,255,879	2 05	7 285,951	2 07
Exercised	(63,199)	1 99	(1 179 351)	1 94
Forfeited	(186,364)	2 54	(338 936)	2 22
Transfer from other Group companies	336,011	2 05	488,215	2 07
Outstanding at end of period	6,342,327	2 06	6 255 879	2 05
Exercisable at end of period	6,342,327	2 06	4,600,079	1 88

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

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

2009 Range of exercise prices (i)	2009 Weighted average exercise price	2009 Number of shares	2009 Average remaining contractual life Years	2008 Range of exercise prices (i)	2008 Weighted average exercise price (i)	2008 Number of shares (i)	2008 Average remaining contractual life Years Restated
£1.30–£1 39	£1.31	1,042,267	3 2	£1 30–£1 39	£1 31	1 042 267	4 2
£1 90–£1 99	£1 99	800,526	4 2	£1 90–£1 99	£1 99	863,725	5 2
£2 00–£2 09	£2 02	2,067,142	4 1	£2 00–£2 09	£2 03	2 067,142	5 1
£2 10–£2 19	£2 14	477,297	1 4	£2 10–£2 19	£2 14	477 297	2 4
£2 20–£2 29	£2 24	122,848	5 7	£2 20–£2 29	£2 23	122,848	6 7
£2 50–£2 59	£2 54	1,832,247	6 7	£2 50–£2 59	£2 54	1,682,600	7 3
	£2 06	6,342,327	4 6		£2 05	6,255 879	5 4

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

For options exercised during the period, the weighted average share price was £2 57 (2008 £2 76) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

19 Share-based payments (continued)

LTIS

Under the LTIS allocations of shares in Centrica plc are generally reserved for employees at senior management level The number of shares to be released to participants is calculated subject to the Group's total shareholder return (TSR) and EPS growth during the three years following the grant date Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release (except where permitted by the rules of the scheme) The vesting of half of each award is made on the basis of TSR performance For this half of the award the calculation of TSR performance is compared with the TSR of other shares in the FTSE 100

Allocations are valued using a Monte Carlo simulation model The number of shares released is determined on a straight-line basis between 25% and 100% if Centrica's TSR is ranked between 50th and 20th The vesting of the remaining half of awards is dependent on EPS growth This is considered a non-market condition under IFRS 2 Additional shares for both TSR and EPS portions are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the performance period The fair value of the awards is therefore considered to be the market value at the grant date The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest Details of the fair values of awards granted and related assumptions are included in section (c) below

A reconciliation of movements in allocations is as follows

	2009 Number	2008 Number (i)
Outstanding at start of period	**8,077,874**	7 920,284
Granted	**5,158,472**	3 964,266
Exercised	**(2,554,265)**	(1,203 874)
Forfeited – performance related	**(397,682)**	(1,042 232)
Forfeited – non performance related	**(971,405)**	(496,402)
Transfer from/(to) other Group companies	**1,013,875**	(1 064 168)
Outstanding at end of period	**10,326,869**	8 077 874
Vested at end of period	**4,899,461**	–

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

For shares released during the period, the weighted average share price was £2 30 (2008 £2 72) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

Sharesave

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

	2009		2008	
	Number	**Weighted average exercise price**	Number (i)	Weighted average exercise price (i)
Outstanding at start of period	**9,048,646**	£2 20	12,067,154	£1 58
Granted	**6,795,396**	£1 94	3 876,571	£2 27
Exercised	**(2,090,278)**	£2 00	(7,357 766)	£1 12
Forfeited	**(2,153,532)**	£2 28	(1 715 371)	£1 77
Expired	**(115,980)**	£1 90	(14,593)	£1 28
Transfer from other Group companies	**156,899**	£2 20	2 192 651	£1 58
Outstanding at end of period	**11,641,151**	£2 08	9 048 646	£2 22
Exercisable at end of period	**220,335**	£1 97	83,989	£1 15

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

19 Share-based payments (continued)

Sharesave (continued)

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

	2009				2008		
Range of exercise prices (i)	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£0 90–£0 99	–	–	–	£0 90–£0 99	£0 95	60,976	–
£1 50–£1 59	–	–	–	£1 50–£1 59	–	–	–
£1 60–£1 69	£1 66	644,120	0 2	£1 60–£1 69	£1 66	1,090 718	0 9
£1 70–£1 79	–	–	–	£1 70–£1 79	–	–	–
£1 90–£1 99	£1 94	6,460,741	3 1	–	–	–	–
£2 10–£2 19	£2 12	622,063	1 1	£2 10–£2 19	£2 12	2 417,697	2 3
£2 20–£2 29	£2 27	2,485,625	2 1	£2 20–£2 29	£2 27	3 543 914	4 3
£2 50–£2 59	£2 59	1,428,602	0 9	£2 50–£2 59	£2 59	1 935,341	3 3
	£2 08	11,641,151	2 4		£2 22	9 048 646	3 1

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

For options exercised during the period the weighted average share price at the date of exercise was £2 36 (2008 £2 64) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

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

	2009 Number	2008 Number (i)
Outstanding at start of period	1,084,447	814 397
Granted	1,363,360	431,784
Exercised	(442,343)	(235 459)
Forfeited	(99,682)	(28 466)
Transfer from other Group companies	243,810	102,191
Outstanding at end of period	2,149,592	1 084 447
Vested at end of period	–	–

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

For shares released during the period, the weighted average share price at the date of release was £2 31 (2008 £2 71) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

19 Share-based payments (continued)

RSS

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

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

A reconciliation of movements in the allocations is as follows

	2009 Number	2008 Number (i)
Outstanding at start of period	**312,607**	221,467
Granted	**-**	99 845
Exercised	**(59,708)**	(6,321)
Forfeited	**-**	(2,382)
Transfer to other Group companies	**(91,172)**	(2)
Outstanding at end of period	**161,727**	312,607
Exercisable at end of period	**-**	-

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

For shares released during the period, the weighted average share price at the date of release was £2 35 (2008 £2 69) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

SIP

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

A reconciliation of matching shares held in trust is as follows

	2009 Number	2008 Restated Number (i)
Unvested at start of period	**360,064**	426,388
Granted	**257,280**	167 858
Shares sold and transferred out of the plan	**-**	(152 323)
Forfeited	**(25,813)**	(81 859)
Unvested at end of period	**591,531**	360 064

Amounts in 2008 have been restated to include only unvested matching shares and to correct allocation of shares between other subsidiaries which was not previously available

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

For shares released during the period the weighted average share price at the date of release was £2 52 (2008 £2 77) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

19 Share-based payments (continued)

(b) Fair values and associated details of options granted

	Sharesave		ESOS	
	2009	2008	**2009**	2008
Number of options originally granted – adjusted for Rights Issue (i)	**6,795,396**	3 876 571	–	–
Weighted average fair value at grant date adjusted for Rights Issue (i)	**£0 49**	£0 64	–	£0 60
Weighted average share price at grant date adjusted for Rights Issue (i)	**£2 30**	£2 71	£0 00	£2 91
Weighted average exercise price adjusted for Rights Issue (i)	**£1 94**	£2 27	£0 00	£2 56
Expected volatility (ii)	**29%**	23%	**0%**	23%
Contractual option life	**4 3 years**	4 2 years	–	10 years
Expected life	**4 3 years**	3 9 years	–	5 years
Vesting period	**4 years**	3 9 years	–	–
Expected dividend yield	**5 00%**	3 50%	**0%**	4 20%
Risk-free interest rate (iii)	**2 43%**	4 07%	**0%**	4 30%
Expected forfeitures	**31%**	30%	**0%**	0%

(c) Fair values and associated details of shares granted

2009	**DMSS**	**LTIS**	**SAS**	**RSS**	**SIP**
Number of equity instruments at grant date adjusted for Rights Issue (i)	**1,651,973**	**5,158,472**	**1,363,360**	**-**	**257,280**
Weighted average fair value at grant date adjusted for Rights Issue (i)	**£2 81**	**£1 68**	**£2 22**	**£0 00**	**£2 45**
Expected performance lapses	**0%**	**n/a**	**n/a**	**n/a**	**n/a**
Contractual option life	**4 years**	**3 years**	**2 5 years**	**n/a**	**n/a**
Expected life	**n/a**	**3 years**	**n/a**	**n/a**	**n/a**
Vesting period	**4 years**	**3 years**	**2 5 years**	**-**	**3 years**
Expected volatility (ii)	**n/a**	**31%**	**n/a**	**n/a**	**n/a**
Expected forfeitures	**25%**	**25%**	**20%**	**0%**	**0%**
Risk-free rate (iii)	**n/a**	**2.20%**	**n/a**	**n/a**	**n/a**
Average volatility of FTSE 100	**n/a**	**31%**	**n/a**	**n/a**	**n/a**
Average cross-correlation of FTSE 100 (iv)	**n/a**	**40%**	**n/a**	**n/a**	**n/a**

2008	DMSS	LTIS	SAS	RSS	SIP
Number of equity instruments at grant date adjusted for Rights Issue (i)	650,339	3 964,266	431,784	99,845	167,858
Weighted average fair value at grant date adjusted for Rights Issue (i)	£2 63	£1 96	£2 71	£2 47	£2 69
Expected performance lapses	0%	n/a	n/a	n/a	n/a
Contractual option life	4 years	3 years	2 6 years	3 years	n/a
Expected life	n/a	3 years	n/a	n/a	n/a
Vesting period	4 years	3 years	2 6 years	3 years	3 years
Expected volatility (ii)	n/a	22%	n/a	n/a	n/a
Expected forfeitures	25%	25%	21%	25%	0%
Risk-free rate (iii)	n/a	4 02%	n/a	n/a	n/a
Average volatility of FTSE 100	n/a	27%	n/a	n/a	n/a
Average cross-correlation of FTSE 100 (iv)	n/a	30%	n/a	n/a	n/a

(i) For options granted prior to 14 November 2008, amounts have been adjusted to take account of the bonus element of the Rights Issue Details of the Rights Issue are provided above

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

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

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

20 Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2009	447,162	(319,460)
Profit for the financial year	-	467,692
Employee share option schemes		
Value of services provided	-	12 179
At 31 December 2009	447,162	160,411

The profit and loss account can be further analysed as follows

	Capital contribution reserve £000	Other £000	Profit and loss account £000
At 1 January 2009	34,074	(353,534)	(319 460)
Profit for the financial year	-	467,692	467,692
Employee share option schemes			
Value of services provided	12,179	-	12 179
At 31 December 2009	46,253	114,158	160,411

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

21 Reconciliation of movements in shareholder's funds

	2009 £000	2008 £000
At 1 January	**927,702**	1 060 849
Profit/(loss) for the financial year	**467,692**	(145,630)
Employee share option schemes		
Value of services provided	**12,179**	12,483
At 31 December	**1,407,573**	927 702

22 Commitments and contingencies

	2009 £000	2008 £000
a) Commitments in relation to the acquisition of intangible assets		
Renewable obligation certificates	**1,446,169**	1,057 716
Carbon emissions certificates	**326,498**	398 999
Certified emission reduction certificates	**109,570**	139,013
Other	**8,815**	5 000
	1,891,052	1 600 728

	2009 £000	2008 £000
b) Commitments in relation to other contracts		
Transportation capacity	**624,395**	762,357
LNG capacity	**673,795**	782,725
Carbon emission reduction target measures	**59,650**	65 625
Outsourcing of services	**8,413**	21,276
Other	**50,543**	70,879
	1,416,796	1 702 862

22 Commitments and contingencies (continued)

c) Lease commitments

At 31 December 2009, the company had annual commitments under non-cancellable operating leases for plant equipment and vehicles expiring as follows

	2009	2008
	£000	£000
Within one year	715	631
Between two and five years	5,110	4 623
	5,825	5,254

d) Pensions

The majority of the Company's UK employees as at 31 December 2009 were members of the three main schemes in the Centrica plc Group the Centrica Pension Scheme, Centrica Management Pension Scheme and Centrica Unapproved Pension Scheme

These are defined benefit schemes and their assets are held in separate trustee administered funds However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes and therefore, as allowed within FRS 17 these schemes have been treated as defined contribution schemes The aggregate contributions to the schemes during the year were £131 1 million (2008 £82 7 million) The amount outstanding at the balance sheet date was £nil (2008 £nil) The latest actuarial valuation of the schemes updated for the purposes of FRS 17 show a total deficit of £398 million (£286 million deficit net of deferred tax) (2008 (restated) £121 million deficit (£88 million deficit net of deferred tax)) These pension schemes are included on a consolidated basis within the group accounts of Centrica plc as prepared under IFRS

The liabilities under the pension schemes will be paid out over an extended period The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full This actuarial advice is based on funding valuations carried out at least triennially the last of which was as at 31 March 2009

e) Guarantees and indemnities

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

f) Commodity purchase contracts

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

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices They also include gas contracts indexed to market prices and long-term gas contracts with non-gas indexation Further information about the Centrica plc group s procurement strategy is contained in note 39 of the Centrica plc 2009 Annual Report and Accounts

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

	2009	2008
	£000	£000
Within one year	8,509,208	12 446,797
Between one and five years	17,869,716	21 747 645
After five years	6,560,144	9 922,257
	32,939,068	44 116 699

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

23 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"

	2009 £000	2008 £000
Financial instruments held for trading		
Energy derivatives - assets	**561,623**	1,752 410
Energy derivatives - liabilities	**(1,806,764)**	(2 400 573)
Energy foreign exchange swaps - assets	**3,634**	46 913
Energy foreign exchange swaps - liabilities	**(11,065)**	(40 564)
	(1,252,572)	(641 814)

24 Post balance sheet events

A joint interest held with British Gas Business Services Limited in a commercial insurance intermediary business which traded under the name Insurance-4-Business was sold to Xbridge Limited on 3 February 2010 for £400 000 British Gas Trading Limited and British Gas Business Services Limited will have no further involvment in this particular business activity

In June 2010 the company's ultimate parent company agreed with HM Customs and Excise a basis for closing a number of open taxation issues across the group Agreement at the entity level has yet to take place and it is accordingly too early to assess the extent to which the company's taxation balances might be impacted

25 Ultimate parent undertaking and controlling party

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

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated statements Copies of the 2009 Annual report and Accounts of Centrica may be obtained from www centrica com or from the registered office at Millstream Maidenhead Road, Windsor Berkshire SL4 5GD