

Registration number: 03078711

# British Gas Trading Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015

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# **British Gas Trading Limited**

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## **British Gas Trading Limited**

### **Company Information**

**Directors**                S J Buck  
                                 J M Campbell  
                                 I Peters  
                                 G Barbaro  
                                 M S Hodges  
                                 S Sambhi

**Company secretary**    Centrica Secretaries Limited

**Registered office**       Millstream  
                                 Maidenhead Road  
                                 Windsor  
                                 Berkshire  
                                 SL4 5GD

**Independent Auditors** PricewaterhouseCoopers LLP  
                                 Chartered Accountants and Statutory Auditors  
                                 1 Embankment Place  
                                 London  
                                 WC2N 6RH

## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2015**

The Directors present their Strategic Report of British Gas Trading Limited (the 'Company' or 'BGTL') for the year ended 31 December 2015.

#### **Principal activities**

British Gas Trading Limited's principal activities are to buy, and subsequently sell, gas and power to its residential and business customers. It procures the commodity required for its customers from British Gas Energy Procurement Limited (BGEPL) under a long term contractual supply arrangement. BGEPL procures gas and power, via back to back arrangements with the Company, from the market and through bilateral contracts.

#### **Review of the business**

In 2015, energy consumption returned to more normal levels following a mild 2014, however the Company continued to experience issues arising from the implementation of a new billing and customer relationship management (CRM) system for business customers. In a competitive environment the Company remains focused on delivering increased efficiencies, improved customer service and innovative customer propositions across British Gas.

In a competitive market environment, residential energy customer accounts fell by less than 1% over the year and ended the year at 14.7 million, falling further in 2016. The Company is adapting to the changing market with competitive fixed price and collective switch offerings and the fixed-price Sainsbury's tariff delivered particularly strong sales, generating new to brand customers.

Average residential annual gas consumption increased by 5% despite the warmest December on record, with more normal UK temperatures on average in the year compared to 2014. In addition, costs associated with delivery of the Energy Company Obligation ('ECO') programme were lower, predominantly reflecting improved efficiency and the phasing of expenditure on the programme as delivery was accelerated in 2014 to ensure obligations under Phase 1 of the programme were met. To date, the Company has helped nearly 500,000 households under the ECO programme.

Improving customer service levels is a key focus of the Company, with significant investment being made in serving residential energy customers, to help achieve the goal of delivering excellent service. With additional customer service agents having been recruited, residential energy contact centre Net Promoter Score ('NPS') has increased by nine points over 2015, to +28.

Providing customers with the tools to interact and engage through digital channels is increasingly important, to improve customer satisfaction and to help reduce costs, and the Company is focused on transforming the digital customer experience. The Company has made good progress in developing digital platforms and during the year a new simplified 'homemove' customer journey was launched, which has helped increase retention of customers moving home by 23 percentage points.

Innovative customer offerings, including connected home products, are increasingly important to improve customer satisfaction and retention. The Company has established a significant position in connected homes in the UK and in March 2015 completed the acquisition of AlertMe, the provider of the technical platform that underpins the existing connected home activity, including the 'in-house' developed Hive smart thermostat. In July 2015, Hive Active Heating2 was launched, the next generation of our smart thermostat. Over 300,000 smart thermostats have now been sold in the UK, providing us with the largest installed base of connected thermostats.

## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2015 (continued)**

#### **Review of the business (continued)**

With the most customers in the UK, the Company is leading the mandatory smart meter roll-out, having installed 2.5 million in homes and businesses since 2009. Smart meters bring significant benefits to customers, including an end to estimated bills, greater ability to monitor and reduce consumption and simpler and faster switching between suppliers, helping to improve trust in the UK energy industry. Over 800,000 of our smart meter customers now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas, with a +21 NPS improvement for customers engaging with the report.

Our mandatory contributions in the UK included one-off payments of £140 to over 650,000 vulnerable customers as part of the Warm Home Discount scheme. Through the delivery of energy efficiency products via ECO, those most in need will also save an estimated £400 million on their energy bills. Mandatory contributions for customers and non-customers were additionally made to the independent charity, the British Gas Energy Trust. This assisted over 24,500 people with household debt advice and grants as well as funding debt advisers at organisations like Shelter, British Gas' strategic charity partner.

Business energy supply was affected by issues following the migration of customer accounts and associated data onto a new billing and CRM system from multiple legacy systems, which had a significant impact on customer service, including difficulties in producing timely customer bills. To help resolve these issues the Company recruited additional resource and customer service levels have begun to improve. Complaints in the second half were down 9% compared to the first half of the year, while unresolved complaints fell by 50% in comparison to the peak in early 2015.

All business customer accounts have been migrated onto the new system and billing performance is now better than under the old legacy system, with cash collection continuing to be a key area of focus. The new system is enabling us to digitise the customer journey, allowing us to target further improvements in customer service at reduced cost.

The number of business energy supply points fell by 11% during 2015, with the focus on resolving the billing issues for existing customers limiting the opportunity for new sales in a competitive market. In addition, the business incurred temporary increases in operating costs to help resolve the system issues and an increase in the bad debt charge.

#### **Principal risks and uncertainties**

The principal risks and uncertainties of the Company are political and regulatory intervention, strategic growth, 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 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 38-42 of the Centrica plc 2015 Annual Report and Accounts which does not form part of this report.

#### **Key performance indicators (KPIs)**

The Directors monitor performance of the individual business units that constitute British Gas Trading Limited. KPIs relating to those business units are included in the Centrica plc 2015 Annual Report and Accounts on pages 20 and 21.

## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2015 (continued)**

#### **Future developments**

The Centrica group is currently implementing the results of a strategic review. Further details of this review are included in the Centrica plc Annual Report and Accounts 2015. This implementation includes a review of how the group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of British Gas Trading Limited.

We remain committed to offering competitively priced products. On 11 February 2016, we announced a further cut in our residential gas prices, effective from 16 March 2016, becoming the only major UK energy supplier to cut prices three times since the start of 2015. The average British Gas customer bill is around £100 less now than at the start of 2015.

Approved by the Board on 29 September 2016 and signed on its behalf by:



.....  
Centrica Secretaries Limited  
Company Secretary

By order of the Board 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

## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2015**

The Directors present their report and the audited Financial Statements for the year ended 31 December 2015.

#### **Directors of the Company**

The directors who held office during the year were as follows:

S D R Beynon (resigned 23 February 2016)

S J Buck (appointed 1 May 2015)

J.M Campbell

I Peters

M R Uzielli (resigned 31 May 2015)

The following directors were appointed after the year end:

G Barbaro (appointed 23 February 2016)

M S Hodges (appointed 23 February 2016)

S Sambhi (appointed 23 February 2016)

#### **Results and dividends**

The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2015 is £467.3m (2014: £588.7m). Total profits in 2015 include dividends received of £nil (2014: £0.2m).

On 27 November 2015 the company paid an interim dividend of £550.0m to its immediate Parent undertaking GB Gas Holdings Limited (2014: £550.0m). The directors do not recommend the payment of a final dividend (2014: £nil).

The financial position of the Company is presented in the Statement of Financial Position (the 'balance sheet') on pages 12 and 13. Total equity at 31 December 2015 was £4,373.2m (2014: £4,523.0m).

#### **Future developments**

Future developments are discussed in the Strategic Report on page 4.

#### **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 period under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

#### **Post balance sheet events**

Post balance sheet events are detailed in note 29 of the financial statements.

#### **Charitable donations**

During the year the Company made mandatory contributions of £11.6m to the independent charity, the British Gas Energy Trust.

#### **Financial risk management**

##### ***Objectives and policies***

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.

## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2015 (continued)**

#### **Financial risk management (continued)**

##### ***Exposure in terms of price risk, credit risk, liquidity risk and cash flow risk***

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 sales of gas and electricity not being fully matched by the procurement contract with BGEPL 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. Centrica group 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. This policy is executed by BGEPL and reflected in the price the Company pays BGEPL for the commodity under the procurement contract.

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.

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Company continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. 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 the business relationship. For residential customers, creditworthiness is ascertained normally before commencing to trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. An ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

#### **Employees**

The Company remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Centrica Group through personal briefings, regular meetings, email and broadcasts at key points in the year.

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. We offer Sharesave, HMRC's Save as You Earn Scheme, and the Share Incentive Plan (SIP) with good levels of take-up across the Company.

The Company is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavour to retain employees in the workforce if they become disabled during employment.

Safety is another of the Centrica Group's core priorities. Process safety remains a major focus within the Centrica group and a three-year improvement plan has been created that will strengthen employee leadership and capability alongside enhancing asset management and assurance processes.



## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2015 (continued)**

#### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable UK 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 the auditors**

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

#### **Reappointment of auditors**

In accordance with section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Approved by the Board on 29 September 2016 and signed on its behalf by:



Centrica Secretaries Limited  
Company Secretary

By order of the Board 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

## **British Gas Trading Limited**

### **Independent Auditors' Report to the Members of British Gas Trading Limited**

#### **Report on the financial statements**

##### ***Our opinion***

In our opinion, British Gas Trading Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

##### ***What we have audited***

The financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), comprise:

- the Statement of Financial Position as at 31 December 2015;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### **Other matters on which we are required to report by exception**

###### ***Adequacy of accounting records and information and explanations received***

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

## **British Gas Trading Limited**

### **Independent Auditors' Report to the Members of British Gas Trading Limited (continued)**

#### ***Directors' remuneration***

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### **Responsibilities for the financial statements and the audit**

As explained more fully in the Statement of Directors' Responsibilities (set out on page 7), 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) ('ISAs (UK & 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.

#### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

.....  
Charles van den Arend (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

29 September 2016

## British Gas Trading Limited

### Income Statement for the Year Ended 31 December 2015

	Note	2015 £ m	2014 £ m
Revenue	4	10,635.4	11,140.5
Cost of sales	5	<u>(8,819.0)</u>	<u>(9,355.6)</u>
Gross profit		1,816.4	1,784.9
Operating costs	5	<u>(1,303.1)</u>	<u>(1,135.5)</u>
Operating profit		513.3	649.4
Finance income	7	145.6	153.8
Finance cost	7	<u>(58.4)</u>	<u>(84.6)</u>
Profit before income tax		600.5	718.6
Income tax expense	9	<u>(133.2)</u>	<u>(129.9)</u>
Profit for the financial year		<u>467.3</u>	<u>588.7</u>

The above results were derived from continuing operations.

## British Gas Trading Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2015

	Note	2015 £ m	2014 £ m
Profit for the financial year		<u>467.3</u>	<u>588.7</u>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Net actuarial (losses) on defined benefit pension schemes		(106.3)	(6.8)
Income tax on items that will not be reclassified to profit or loss		<u>17.8</u>	<u>1.4</u>
		(88.5)	(5.4)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Gain on cash flow hedges (net)		<u>0.7</u>	<u>-</u>
Total comprehensive income for the year		<u><u>379.5</u></u>	<u><u>583.3</u></u>

The notes on pages 15 to 59 form an integral part of these financial statements.

## British Gas Trading Limited

### Statement of Financial Position as at 31 December 2015

	Note	2015 £ m	As restated 2014 £ m
<b>Non-current assets</b>			
Intangible assets	10	604.5	592.0
Property, plant and equipment	11	98.9	103.1
Investments	12	1,307.0	1,249.1
Deferred tax assets	9	6.0	8.9
Trade and other receivables	14	199.6	276.1
Derivative financial instruments	15	961.0	1,129.5
Retirement benefit assets	20	108.8	193.3
		<u>3,285.8</u>	<u>3,552.0</u>
<b>Current assets</b>			
Inventories	13	6.5	28.1
Trade and other receivables	14	4,884.9	4,723.1
Current tax asset		105.9	56.7
Derivative financial instruments	15	1,698.2	1,545.3
Cash and cash equivalents		192.0	126.0
		<u>6,887.5</u>	<u>6,479.2</u>
<b>Total assets</b>		<u>10,173.3</u>	<u>10,031.2</u>
<b>Current liabilities</b>			
Trade and other payables	17	(2,685.1)	(2,561.0)
Borrowings	16	(209.6)	(121.0)
Derivative financial instruments	18	(1,647.1)	(1,496.7)
Provisions for other liabilities and charges	19	(11.8)	(28.1)
		<u>(4,553.6)</u>	<u>(4,206.8)</u>
<b>Non-current liabilities</b>			
Trade and other payables	17	(13.3)	(17.3)
Borrowings	16	(163.9)	(201.7)
Deferred tax liabilities	9	(93.7)	(126.1)
Derivative financial instruments	18	(952.8)	(939.5)
Provisions for other liabilities and charges	19	(22.8)	(16.8)
		<u>(1,246.5)</u>	<u>(1,301.4)</u>
<b>Total liabilities</b>		<u>(5,800.1)</u>	<u>(5,508.2)</u>
<b>Net assets</b>		<u>4,373.2</u>	<u>4,523.0</u>

The notes on pages 15 to 59 form an integral part of these financial statements.

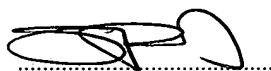
## British Gas Trading Limited

### Statement of Financial Position as at 31 December 2015 (continued)

	Note	2015 £ m	As restated 2014 £ m
<b>Equity</b>			
Called up share capital	21	800.0	800.0
Share premium reserve	21	447.2	447.2
Cash flow hedging reserve	21	0.7	-
Share-based payments reserve	21	116.2	108.1
Actuarial gains and losses reserve	21	(145.3)	(56.8)
Retained earnings	21	<u>3,154.4</u>	<u>3,224.5</u>
<b>Total equity</b>		<u>4,373.2</u>	<u>4,523.0</u>

Cash and cash equivalents and current bank overdrafts, loans and other borrowings for 2014 have been restated. See note 2 for further information.

The financial statements on pages 10 to 59 were approved and authorised for issue by the Board of Directors on 29 September 2016 and signed on its behalf by:



S J Buck

Director

Company number 03078711

**British Gas Trading Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2015**

	Share capital £ m	Share premium reserve £ m	Cash flow hedging reserve £ m	Share-based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2015	800.0	447.2	-	108.1	(56.8)	3,224.5	4,523.0
Profit for the financial year	-	-	-	-	-	467.3	467.3
Other comprehensive income	-	-	0.7	-	(88.5)	-	(87.8)
Total comprehensive income	-	-	0.7	-	(88.5)	467.3	379.5
Dividends	-	-	-	-	-	(550.0)	(550.0)
Share schemes: Exercise of awards	-	-	-	(12.6)	-	12.6	-
Share schemes: Value of shares provided	-	-	-	20.7	-	-	20.7
At 31 December 2015	800.0	447.2	0.7	116.2	(145.3)	3,154.4	4,373.2

	Share capital £ m	Share premium reserve £ m	Share-based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2014	800.0	447.2	110.6	(51.4)	3,169.5	4,475.9
Profit for the financial year	-	-	-	-	588.7	588.7
Other comprehensive income	-	-	-	(5.4)	-	(5.4)
Total comprehensive income	-	-	-	(5.4)	588.7	583.3
Dividends	-	-	-	-	(550.0)	(550.0)
Share schemes: Exercise of awards	-	-	(16.3)	-	16.3	-
Share schemes: Value of services provided	-	-	13.8	-	-	13.8
At 31 December 2014	800.0	447.2	108.1	(56.8)	3,224.5	4,523.0

The notes on pages 15 to 59 form an integral part of these financial statements.



## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **1 General information**

British Gas Trading Limited (the 'Company') is a company limited by share capital incorporated and domiciled in UK.

#### **2 Accounting policies**

##### **Basis of preparation**

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements as it's a wholly-owned subsidiary of Centrica plc. These financial statements present information about the Company as an individual undertaking and not about its group, and have been prepared on a going concern basis, as described in the Directors' Report.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 30.

These financial statements are presented in pound sterling (with all values rounded to the nearest one hundred thousand pounds (£0.1m) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

The financial statements are prepared on the historical cost basis except for investments, derivative financial instruments, available for sale assets and the Company share of assets of the Group's defined benefit schemes that's have been recorded at fair value and the liabilities of the Group's pension schemes that have been measured using the projected unit credit valuation method.

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, British Gas Trading Limited sold the trade, net assets and certain unrealised commodity contracts (via back to back contractual arrangements) associated with the Centrica Energy business to a new legal entity within the Group: Centrica Energy Marketing Limited. The Company also sold the trade, net assets and unrealised commodity contracts (via back to back contractual arrangements) associated with procuring gas and power for our residential and business customers to a new specialist energy procurement legal entity within the Group: British Gas Energy Procurement Limited. These disposals completed on 31 December 2013. On 2 January 2015, continuing the process to increase clarity and transparency in financial reporting, the Company sold its remaining beneficial interest in certain contracts via back to back agreements to CEML. As a result of this sale, certain commitments, previously held by the Company, have also been transferred.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure and IFRS transition exemptions**

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Investments in subsidiaries, associates and joint ventures – on transition to FRS 101, investments in subsidiaries are measured at deemed cost, being the previous GAAP carrying value of the investment;
- Fair value measurement of financial assets and financial liabilities at initial recognition – on transition to FRS 101, gains or losses in respect of the initial recognition of financial instruments are reinstated where applicable so that IAS 39 requirements apply prospectively;
- Business combinations – upon transition to FRS 101, business combinations that took place prior to 1 January 2014 ('date of transition') are not restated; and
- Leases – on transition to FRS 101, the assessment of whether arrangements contain a lease or not is performed based on facts and circumstances existing at the date of transition;

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- Comparative period reconciliations for share capital;
- Disclosures in respect of related parties transactions with wholly-owned subsidiaries;
- Disclosures in respect of the compensation of key management personnel;
- Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101).
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

Note that the Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:

- Presentation of IAS format financial statements.

As the consolidated financial statements of Centrica plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value; and
- Certain disclosures required by IFRS 3 Business combinations in respect of business combinations undertaken by the Company.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Departures from requirements of Financial Reporting Standard 101 and the financial impact**

The Company has used a true and fair view override in respect of the non-amortisation of goodwill.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Under the Company's previous basis of accounting (UK GAAP), the goodwill balances were amortised over their estimated useful economic lives. If this accounting policy had been applied to the goodwill balances in the current period, an amortisation charge of £6.8 million would have been charged to the income statement.

##### **Prior period adjustments**

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Company has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts on the Company Statement of Financial Position and now shows £171.8 million of bank overdrafts within current bank overdrafts, bank loans and other borrowings. Comparatives at 31 December 2014 have been restated by £79.3 million.

The prior year figures for aggregate emoluments paid to directors and remuneration of the highest paid director have been amended since the 2014 statutory accounts were finalised. This was due to a change in the method of allocation of emoluments to Group entities, as well as the inclusion of certain payments and allowances owed to directors. See note 27 for further information.

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue 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. Revenue is recognised on the basis of energy supplied or delivered during the year.

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 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 trade and other receivables.

All revenue arises in the United Kingdom.

##### **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.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Employee share schemes**

The Centrica plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 63-79 and in note S2 of the Centrica plc 2015 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 in the income statement 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 detailed in note S2 of the Group financial statements.

##### **Dividend income**

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

##### **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Amounts due from a lessee under a finance lease are recognised as receivables at the amount of the net investment in the lease, which includes initial direct costs. Where assets are leased by a manufacturer or dealer, the initial direct costs are expensed. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments and receipts under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

##### **Borrowing costs**

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognized in the income statement for the period. Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

##### **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. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax liabilities are offset against deferred tax assets when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Other intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, application software and renewable obligation certificates, the accounting policies for which are dealt with separately below. 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. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

##### **Renewable obligation certificates (ROCs)**

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. ROC's are acquired by BGEPL on behalf of the Company. These are transferred at cost to the Company at the end of the compliance period whereupon the intangible asset is surrendered and the liability is utilised to reflect the consumption of economic benefits. As a result no amortisation is recorded during the period. Any recycling benefit related to the submission of ROCs is recognised in the Income Statement when received.

##### **Amortisation of intangible assets**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

<b>Asset class</b>	<b>Amortisation method and rate</b>
Contractual customer relationships	Straight line, up to 20 years
Application software	Straight line, up to 15 years

##### **Property, plant and equipment ('PP&E')**

PP&E is included in the statement of financial position 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. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Depreciation**

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Plant	Straight line, between 5 and 20 years
Equipment and vehicles	Straight line, between 3 and 10 years
Power stations	Straight line, up to 30 years

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

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

##### **Investments in subsidiaries**

Fixed assets investments in subsidiaries' shares are held at deemed cost in accordance with IAS 27, less any provision for impairment as necessary.

##### **Inventories**

Inventories, Levy Exemption Certificates (LECs), are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items. Inventories of gas and oil are valued on an average weighted basis, at the lower of cost and net realisable value.

##### **Levy Exemption Certificates ('LECs')**

LECs are sold to certain business customers in order for them to save Climate Change Levy (CCL), which was introduced in the UK following signing of Kyoto Protocol. LECs are held in the statement of financial position as inventory to the extent more have been produced than have been sold onto customers. LECs are held at the lower of cost and net realisable value. The cost of purchasing LECs is recognized in cost of sales when sold to the customer.

##### **Provisions**

Provisions are recognised when 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 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 income statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

Contracts to sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the lowest priced retail sales contract is supplied by the lowest priced purchase contract.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Defined benefit pension obligation**

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 note 22 to the Group financial statements. 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.

##### **Defined contribution pension obligation**

Payments to defined contribution retirement benefit schemes are recognised in the Company's income statement as they fall due.

##### **Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units (CGU).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

##### **Financial assets and liabilities**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.



## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate ('EIR') (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

##### **Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the EIR method (although, in practice, the discount is often immaterial). If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

##### **Interest-bearing loans and other borrowings**

All interest-bearing (and interest free) loans and other borrowings with banks and similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

##### **Derivative financial instruments**

See 'Critical accounting judgments and key sources of estimation uncertainty' (note 3) for the detailed accounting policy applied by BGTL for derivative financial instruments in these financial statements.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **2 Accounting policies (continued)**

##### **Hedge accounting**

###### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve through other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

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

##### **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.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **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. The 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.

##### **Energy Company Obligation ('ECO')**

The Energy Company Obligation (ECO) order requires 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. ECO phase 1 had a delivery date of 31 March 2015. ECO phase 2 must be delivered by 31 March 2017. The Company continues to judge that it is not legally obligated by this order until 31 March 2017 for ECO phase 2. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made, resulting in obligations that cannot be avoided.

In prior periods, the Company had entered into a number of contractual arrangements and commitments, and issued a public statement to underline its commitment to deliver a specific proportion of the ECO requirements. Consequently, the Company's result included the costs of these contractual arrangements and commitment obligations.

##### **Smart 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 2020. The Company 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 Company considers that these contracts are not onerous until the meters have been physically removed from use and, therefore, only recognises a provision for penalty charges at this point.

During 2015 as part of the smart meter roll-out, the Company has renewed meter rental arrangements with third-parties. The Company has assessed that these are not leases because it does not have the right to physically or operationally control the smart meters and other parties also take a significant amount of the output from the assets.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Derivative financial instruments**

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back to back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited, a Centrica group company. The Company also enters into back to back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited, also a Centrica group company. The back to back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts.

The purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that the original contracts entered into by BGTL and the related back to back arrangements constitutes a practice of taking delivery and selling in a short space of time. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's statement of financial position at fair value. Due to the beneficial interest contracts also being in the scope of IAS 39, and matching the underlying derivative contracts, this has the effect of grossing-up the Statement of Financial Position for the Company.

BGTL has entered into an agreement with BGEPL in which BGEPL agreed to source commodities as requested by BGTL, the price for which is determined by the back to back contracts entered into by BGEPL. This separate contract has been deemed to be an own-use contract for the Company since it only pays for commodities delivered and will only call on commodity purchases to meet its downstream demand. BGEPL is considered to be a principal in the transaction as it assumes the risk and rewards of balancing the purchase and sales contracts to meet the commodity needs of the Company.

The Company uses a range of derivatives to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2015 of the ultimate controlling party being Centrica Plc, in the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42 and in note S3.

The accounting treatment for derivatives is dependent on whether they are designated as hedges in a hedge accounting relationship. A derivative instrument qualifies for hedge accounting when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Company also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Derivative financial instruments (continued)**

The Company enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the income statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the income statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement and are included within gross profit or interest income and interest expense.

Derivatives entered into for speculative energy trading purposes are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Embedded derivatives: derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the income statement.

Gains and losses arising from changes in fair value on Business energy sales contracts derivatives that do not qualify for hedge accounting are taken directly to the income statement as revenue for the year.

##### **Pensions and other post-employment benefits**

The 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 note 22 of the Centrica plc 2015 Annual Report and Accounts.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

##### Credit provisions for trade and other 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.

#### 4 Revenue

All revenue arose in the United Kingdom. The analysis of the company's revenue for the year from continuing operations is as follows:

	2015 £ m	2014 £ m
Residential energy supply	8,241.3	8,327.2
Business energy supply and services	2,381.4	2,806.2
Residential services	12.7	7.1
	<u>10,635.4</u>	<u>11,140.5</u>

**British Gas Trading Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

**5 Analysis of costs by nature**

	<b>Cost of sales</b>	<b>2015 Other operating costs</b>	<b>Total costs</b>	<b>Cost of sales</b>	<b>2014 Other operating costs</b>	<b>Total costs</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Transportation, distribution and metering costs	2,871.1	-	2,871.1	2,919.4	-	2,919.4
Commodities costs	4,220.3	-	4,220.3	4,731.8	-	4,731.8
Depreciation, amortisation, impairment and write-downs	-	119.4	119.4	-	83.5	83.5
Employee costs	87.2	552.7	639.9	70.7	563.1	633.8
Impairment of trade and other receivables	-	270.7	270.7	-	185.8	185.8
Vehicle operating lease rentals	-	10.2	10.2	-	9.2	9.2
Other operating costs	1,640.4	350.1	1,990.5	1,633.7	293.9	1,927.6
<b>Total operating costs by nature</b>	<b>8,819.0</b>	<b>1,303.1</b>	<b>10,122.1</b>	<b>9,355.6</b>	<b>1,135.5</b>	<b>10,491.1</b>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 6 Employees' costs

The disclosures in this note reflect the costs and number of all Centrica plc Group employees that work in the British Gas Trading Limited business regardless of whether they have a contract of employment with British Gas Trading Limited or another Group company. The Directors believe that the disclosures given on this basis are the fairest representation of the cost and number of people working in the British Gas Trading Limited business.

The aggregate employee costs (including directors' remuneration) were as follows:

	2015 £ m	2014 £ m
Wages and salaries	510.8	506.3
Social security costs	57.0	54.6
Pension and other post-employment benefit costs	51.4	55.1
Share-based payment expenses	20.7	17.8
	<u>639.9</u>	<u>633.8</u>

In respect of the Directors' remuneration, refer to note 27 'related parties' transactions'.

The average monthly number of employees, all employed in the United Kingdom, during the year was 14,307 (2014: 13,417). All employees were administrative and sales staff.

#### 7 Net finance income/cost

##### Finance income

	2015 £ m	2014 £ m
Interest income from amounts owed by group undertakings	72.8	79.4
Contingent rents received in respect of finance leases	12.4	14.6
Interest income on bank and other short-term deposits	0.3	0.6
Dividend income from group undertakings	-	0.2
Net foreign exchange gains on financing transactions	2.7	-
Income on assets under finance leases	51.1	53.1
Other finance income	6.3	5.9
<b>Total finance income</b>	<u>145.6</u>	<u>153.8</u>



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 7 Net finance income/cost (continued)

##### Finance cost

	2015 £ m	2014 £ m
Interest on amounts owed to group undertakings	(18.4)	(12.0)
Interest on bank overdrafts and borrowings	(1.3)	(1.0)
Contingent rents paid in respect of finance leases	(27.8)	(31.0)
Interest on obligations under finance leases	(12.6)	(14.5)
Net foreign exchange losses on financing transactions	-	(31.4)
	<u>(60.1)</u>	<u>(89.9)</u>
Capitalised borrowing costs	<u>1.7</u>	<u>5.3</u>
<b>Total finance cost</b>	<u><u>(58.4)</u></u>	<u><u>(84.6)</u></u>
<b>Net finance income/cost</b>	<u><u>87.2</u></u>	<u><u>69.2</u></u>

#### 8 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the Financial Statements provided to the Company.

	2015 £ m	2014 £ m
Audit of the Financial Statements	<u>0.8</u>	<u>0.8</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group financial statements of its ultimate parent, Centrica Plc.

#### 9 Income tax

Tax charged/(credited) in the income statement

	2015 £ m	2014 £ m
<b>Current taxation</b>		
UK corporation tax	129.9	119.4
UK corporation tax adjustment to prior periods	<u>15.0</u>	<u>(20.1)</u>
	<u>144.9</u>	<u>99.3</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 9 Income tax (continued)

	2015 £ m	2014 £ m
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences - UK	0.2	35.2
Arising from changes in tax rates and laws	(13.3)	(2.4)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1.4	(2.2)
Total deferred taxation	(11.7)	30.6
Tax expense in the income statement	133.2	129.9

The Company earns its profits in the UK. These UK activities are subject to the standard rate for UK corporation tax, which from 1 April 2015 was 20.25% (2014: 21.49%)

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the profit before tax are reconciled below:

	2015 £ m	2014 £ m
Profit before tax	600.5	718.6
Tax expense at standard UK rate of 20.25% (2014: 21.49%)	121.6	154.4
<b>Effects of:</b>		
Net expenses non-deductible for tax purposes	3.7	0.3
Increase (decrease) in current tax from adjustment for prior periods	16.4	(22.3)
Increase (decrease) arising from group relief tax reconciliation	(1.0)	-
Increase (decrease) from transfer pricing adjustments	1.0	(0.1)
Deferred tax expense (credit) relating to changes in tax rates or laws	(13.3)	(2.4)
Other tax effects for reconciliation between accounting profit and tax expense (income)	4.8	-
Total income tax expense	133.2	129.9

The main rate of corporation tax was reduced to 20% from 1 April 2015. Further reductions were enacted by Finance (No.2) Act 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These enacted reduced rates of corporation tax have been reflected within these Financial Statements. A further reduction in the rate, to 17% from 1 April 2020, was substantively enacted as part of Finance Act 2016 and is not reflected in the financial statements. As such, the previously enacted rate of 18% from 1 April 2020 will not come into effect. The impact of the reduction in the corporate tax rate to 17% on the financial statements is not expected to be significant.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 9 Income tax (continued)

##### Deferred tax

The movements in respect of the deferred income tax assets and liabilities that occurred during the financial year are as follows:

	Accelerated tax depreciation (corporation tax) £ m	Other timing differences including losses carried forward £ m	Retirement benefit obligation and other provisions £ m	Total £ m
1 January 2014	23.8	22.2	38.1	84.1
Charged/(credited) to the income statement	4.4	24.3	1.9	30.6
Charged/(credited) to the other comprehensive income	-	-	(1.4)	(1.4)
Charged/(credited) to equity	-	3.9	-	3.9
31 December 2014	28.2	50.4	38.6	117.2
Charged/(credited) to the income statement	(5.5)	(5.0)	(1.2)	(11.7)
Charged/(credited) to equity	-	-	(17.8)	(17.8)
<b>31 December 2015</b>	<b>22.7</b>	<b>45.4</b>	<b>19.6</b>	<b>87.7</b>

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances for financial reporting purposes:

	Assets £ m	2015 Liabilities £ m	Assets £ m	2014 Liabilities £ m
Gross deferred tax balances crystallising within one year	3.2	(7.7)	2.8	(2.6)
Gross deferred tax balances crystallising after one year	2.8	(86.0)	6.1	(123.5)
	<u>6.0</u>	<u>(93.7)</u>	<u>8.9</u>	<u>(126.1)</u>

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

### 9 Income tax (continued)

#### Tax directly recognised in equity

	2015 £ m	2014 £ m
<i>Deferred tax recognised directly in equity</i>		
Post retirement benefits	(17.8)	(1.4)
Share option schemes	-	4.0
Total tax recognised directly in equity	<u>(17.8)</u>	<u>2.6</u>

### 10 Intangible assets

	Customer relationship and brands £ m	Application software £ m	Goodwill £ m	Total £ m
<b>Cost or valuation</b>				
At 1 January 2015	45.2	1,142.8	33.2	1,221.2
Additions and capitalised borrowing costs	-	104.5	-	104.5
Retirements	-	(235.5)	-	(235.5)
Transfers	-	(0.9)	-	(0.9)
At 31 December 2015	<u>45.2</u>	<u>1,010.9</u>	<u>33.2</u>	<u>1,089.3</u>
<b>Accumulated amortisation</b>				
At 1 January 2015	36.8	592.4	-	629.2
Amortisation for the year	0.7	90.4	-	91.1
Retirements	-	(235.5)	-	(235.5)
At 31 December 2015	<u>37.5</u>	<u>447.3</u>	<u>-</u>	<u>484.8</u>
<b>Carrying amount</b>				
At 31 December 2015	<u>7.7</u>	<u>563.6</u>	<u>33.2</u>	<u>604.5</u>
At 31 December 2014	<u>8.4</u>	<u>550.4</u>	<u>33.2</u>	<u>592.0</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 10 Intangible assets (continued)

##### Individually material intangible assets

Goodwill acquired through business combinations has been allocated for impairment testing purposes to individual CGUs or groups of CGUs as follows:

	Year of Acquisition	CGU	Carrying Amount £m
Trade and assets of Enron Direct	2001	UK Business	11.1
Trade and assets of Electricity Direct (UK) Limited	2005	UK Business	11.6
ECL Investments Limited and ECL Contracts Limited	2011	UK Home	4.4
Hillserve Limited	2011	UK Home	5.2
British Gas Direct Employment Limited	2012	UK Home	0.9
			<u>33.2</u>

#### 11 Property, plant and equipment

	Plant, equipment and vehicles £ m
<b>Cost or valuation</b>	
At 1 January 2015	235.8
Additions and capitalised borrowing costs	23.2
Retirements	(96.6)
Transfers	0.9
At 31 December 2015	<u>163.3</u>
<b>Accumulated depreciation</b>	
At 1 January 2015	132.7
Depreciation charge for the year	28.3
Retirements	(96.6)
At 31 December 2015	<u>64.4</u>
<b>Carrying amount</b>	
At 31 December 2015	<u>98.9</u>
At 31 December 2014	<u>103.1</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 11 Property, plant and equipment (continued)

##### **Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction**

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction was as follows:

	2015 £ m	2014 £ m
Plant, equipment and vehicles	<u>21.8</u>	<u>37.5</u>

#### 12 Investments

*Investments classified as non-current*

	Shares in group undertakings (subsidiaries) £ m
<b>a) Equity investments</b>	
<b>Cost</b>	
At 1 January 2014 and 31 December 2014	1,249.1
Additions	<u>57.9</u>
At 31 December 2015	1,307.0
<b>Provision</b>	
At 31 December 2014 and 31 December 2015	<u>-</u>
<b>Net book values</b>	
At 31 December 2015	<u>1,307.0</u>
At 31 December 2014	<u>1,249.1</u>

On 17 March 2015 the Company acquired AlertMe.com Limited (name changed to Centrica Connected Home Limited on 5 April 2016), a UK-based connected homes company that provides innovative energy management products and services. The cost to British Gas Trading Limited was £57.9m.

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

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 12 Investments (continued)

Details of the equity interests of the Company in its subsidiaries undertakings are as follows as at 31 December 2015:

Name of subsidiary	Principal activity	Class of shares held	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
				2015	2014
Alertme.com GmbH	Sales office	Ordinary	Germany / A	100%	0%
Alertme.com Inc	Sales office	Common stock	United States of America / B	100%	0%
British Gas Direct Employment Limited*	Dissolved 8 April 2016	Ordinary	United Kingdom / C	100%	100%
British Gas Energy Procurement Limited*	Energy Procurement	Ordinary	United Kingdom / C	100%	100%
Centrica Connected Home Limited*	Energy Management	Ordinary	United Kingdom / C	100%	0%
ECL Contracts Limited*	Dormant	Ordinary	United Kingdom / C	100%	100%
ECL Investments Limited*	Dormant	Ordinary	United Kingdom / C	100%	100%
Electricity Direct (UK) Limited*	Dormant	Ordinary	United Kingdom / C	100%	100%
Hillserve Limited*	Dormant	Ordinary	United Kingdom / C	100%	100%
Hydrocarbon Resources Limited*	Gas Production	Ordinary	United Kingdom / C	100%	100%

\* indicates direct investment of British Gas Trading Limited

The Company also continues to hold its £100 investment in each of Centrica Finance Limited Partnership, Finance Scotland CEPS Limited Partnership, Finance Scotland CPP Limited Partnership and Finance Scotland CPS Limited Partnership registered in Scotland.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 12 Investments (continued)

##### List of registered addresses

Registered address key	Address
A	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
B	1521 Concord Pike #303, Wilmington, DE 19803, United States
C	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom

#### 13 Inventories

	2015 £ m	2014 £ m
Raw materials and consumables	6.0	28.1
Finished goods and goods for resale	0.5	-
	<u>6.5</u>	<u>28.1</u>

There is no significant difference between the replacement cost of inventories and their carrying amounts

#### 14 Trade and other receivables

	2015		2014	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade receivables	1,673.2	-	1,440.8	-
Provision for impairment of trade receivables	<u>(626.3)</u>	<u>-</u>	<u>(552.2)</u>	<u>-</u>
Net trade receivables	1,046.9	-	888.6	-
Amounts owed by group undertakings	2,900.6	-	2,581.1	-
Finance lease receivables owed by group undertakings	24.4	199.2	11.8	276.1
Accrued energy income	613.1	-	889.2	-
Prepayments	139.4	-	119.8	-
Other receivables	<u>160.5</u>	<u>0.4</u>	<u>232.6</u>	<u>-</u>
	<u>4,884.9</u>	<u>199.6</u>	<u>4,723.1</u>	<u>276.1</u>

The amounts owed by Group undertakings include £1,192.1m (2014: £1,051.3m) from Centrica plc which is interest-bearing; this is off-set by £676.6m non-interest bearing amount payable (2014: £719.0m) due to Centrica plc. Of the remaining amounts owed by Group undertakings £2,150.0m (2014: £2,150.0m) is interest bearing. Interest is calculated using a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 2.36% and 2.88% per annum during 2015 (2014: 1.69% and 1.90%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 14 Trade and other receivables (continued)

##### Finance lease receivables

The minimum lease payment obligations that arise from these contracts stands as follows as at 31 December 2015:

	Total future payments £ m	Unearned interest income £ m	Present value £ m
<b>2015</b>			
Within one year	62.9	(38.5)	24.4
In two to five years	251.4	(95.3)	156.1
In over five years	46.3	(3.2)	43.1
	<u>360.6</u>	<u>(137.0)</u>	<u>223.6</u>
	<b>Total future payments £ m</b>	<b>Unearned interest income £ m</b>	<b>Present value £ m</b>
<b>2014</b>			
Within one year	62.9	(51.1)	11.8
In two to five years	251.6	(176.1)	75.5
In over five years	440.0	(239.4)	200.6
	<u>754.5</u>	<u>(466.6)</u>	<u>287.9</u>

The present values of future finance lease payments are analysed as follows:

	2015 £ m	2014 £ m
Current assets	24.4	11.8
Non-current assets	<u>199.2</u>	<u>276.1</u>
	<u>223.6</u>	<u>287.9</u>

##### Impairment charge

The Spalding contract runs until 2021 and the Company holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. During 2015, the decision was made not to extend the arrangement as the cash flows in the extension period had eroded to the point at which the period was expected to be loss making. This has had an impact on the lease receivable in BGTL, as the cash flows it expected to receive from Centrica Energy Marketing Limited (CEML) in the extension period will now not materialise. Therefore, due to the loss of cash flows in the extension period, this has led to an impairment of BGTL's finance lease receivable of £52.5m.

#### 15 Derivative financial instruments - Assets

	2015		2014	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Derivative financial instruments	1,697.3	961.0	1,545.3	1,129.5
Derivatives used for hedging	<u>0.9</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,698.2</u>	<u>961.0</u>	<u>1,545.3</u>	<u>1,129.5</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 15 Derivative financial instruments - Assets (continued)

Note 26 provides further detail on the fair value of financial instruments.

#### 16 Bank overdrafts, loans and borrowings

	2015 £ m	As restated 2014 £ m
<b>Current bank overdrafts, loans and borrowings</b>		
Bank overdrafts	171.8	86.0
Finance lease liabilities	37.8	35.0
	<u>209.6</u>	<u>121.0</u>
	<b>2015 £ m</b>	<b>2014 £ m</b>
<b>Non-current bank overdrafts, loans and borrowings</b>		
Finance lease liabilities	<u>163.9</u>	<u>201.7</u>

##### Bank overdrafts

Bank overdrafts are repayable on demand and attract variable interest of LIBOR plus 1%.

##### Finance lease liabilities

The company has entered into a lease arrangement in respect of its long-term tolling contract in respect of the Spalding power station. This arrangement provides the Company with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments.

The undiscounted minimum lease payments at the end of the reporting year are as follows:

	2015 £ m	2014 £ m
Not later than 1 year	48.3	47.5
Later than 1 year and not later than 5 years	157.0	165.4
Later than 5 years	<u>30.1</u>	<u>70.0</u>
Total gross payments	<u>235.4</u>	<u>282.9</u>

The present value of the finance lease liabilities is as follows:

	2015 £ m	2014 £ m
Not later than 1 year	37.8	35.0
Later than 1 year and not later than 5 years	134.3	135.0
Later than 5 years	<u>29.6</u>	<u>66.7</u>
Carrying value of liability	<u>201.7</u>	<u>236.7</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 17 Trade and other payables

	2015		2014	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade payables	59.3	-	126.8	-
Amounts owed to group undertakings	941.3	-	756.2	-
Social security and other taxes	25.7	-	22.5	-
Other payables	440.7	-	445.9	-
Accrued expenses - Transportation	225.3	-	263.4	-
Accrued expenses - Other	992.8	13.3	946.2	17.3
	<u>2,685.1</u>	<u>13.3</u>	<u>2,561.0</u>	<u>17.3</u>

Within the amounts owed to Group undertakings is £670.3m (2014: £658.3m) which is interest-bearing. Interest is calculated using a quarterly rate determined by Group Treasury and linked to the cost of funds. The quarterly rates ranged between 2.36% and 2.88% (2014: 1.69% and 1.90%). The other amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

#### 18 Derivative financial instruments - Liabilities

	2015		2014	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Derivative financial instruments	<u>1,647.1</u>	<u>952.8</u>	<u>1,496.7</u>	<u>939.5</u>

Note 26 provides further detail on the fair value of financial instruments.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 19 Provisions for other liabilities and charges

	Restructuring £ m	Other provisions £ m	Total £ m
At 1 January 2015	5.5	39.4	44.9
Charged to the income statement	-	13.8	13.8
Unused provision reversed	-	(0.4)	(0.4)
Increase (decrease) from transfers and other changes	(0.2)	-	(0.2)
Provisions used	(0.6)	(22.9)	(23.5)
At 31 December 2015	4.7	29.9	34.6
Non-current liabilities	-	22.8	22.8
Current liabilities	4.7	7.1	11.8

#### Restructuring

The provision predominantly relates to costs reduction programmes. Utilisation is expected within one year.

#### Other provisions

The provision includes, at 31 December 2015, £9.5m in relation to employer's national insurance charges expected to arise at exercise dates on the employee share schemes, £15.9m in relation to smart metering costs, £2m in relation to an onerous contract and £2.5m in relation to other minor provisions.

#### 20 Post-employment benefits

##### Defined benefit pension schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), Centrica Engineers Pension Scheme (CEPS) and Centrica Unfunded Pension Scheme (CUPS). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the Centrica plc 2015 Annual Report and Accounts.

The CEPS, CPP and CPS form the significant majority of the Company's defined benefit obligation and are referred to below and in the Centrica plc 2015 Annual Report and Accounts as the 'Registered Pension Schemes'.

##### Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the Centrica plc 2015 Annual Report and Accounts.

##### Reconciliation of scheme assets and liabilities

The amounts recognised in the statement of financial position are as follows:

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

### 20 Post-employment benefits (continued)

	Assets £ m	Liabilities £ m	2015 Total £ m	Assets £ m	Liabilities £ m	2014 Total £ m
1 January	2,381.2	(2,187.9)	193.3	2,247.2	(2,056.6)	190.6
<b>Items included in the Income Statement:</b>						
Current service cost	-	(36.2)	(36.2)	-	(34.2)	(34.2)
Past service credit	-	11.0	11.0	-	4.0	4.0
Loss on curtailment	-	(2.1)	(2.1)	-	(2.8)	(2.8)
Interest income / (expense)	90.7	(84.4)	6.3	100.2	(94.3)	5.9
<b>Other movements:</b>						
Re-measurement (losses)/gains	(31.1)	(75.2)	(106.3)	52.9	(59.7)	(6.8)
Employer contributions	43.2	-	43.2	37.3	-	37.3
Plan participants contributions	0.2	(0.2)	-	0.3	(0.3)	-
Benefits paid from schemes	(59.9)	59.9	-	(56.7)	56.7	-
Transfers from provisions for other liabilities and charges	-	(0.4)	(0.4)	-	(0.7)	(0.7)
31 December	<u>2,424.3</u>	<u>(2,315.5)</u>	<u>108.8</u>	<u>2,381.2</u>	<u>(2,187.9)</u>	<u>193.3</u>

Presented in the statement of financial position as:

	2015 £ m	2014 £ m
Defined benefit pension assets	<u>108.8</u>	<u>193.3</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 20 Post-employment benefits (continued)

##### Analysis of the actuarial gains/(losses) recognised in reserves

	2015 £ m	2014 £ m
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	(31.1)	52.9
Experience (loss) arising on the scheme liabilities	(57.6)	(2.0)
Changes in assumptions underlying the present value of the schemes' liabilities	(17.6)	(57.7)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	<u>(71.0)</u>	<u>(64.2)</u>
<b>Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation</b>	<b><u>(177.3)</u></b>	<b><u>(71.0)</u></b>

##### Pension scheme contributions

Note 22 to the Centrica plc 2015 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 arrangements set up in 2012 and 2013. Under IAS 19 Employee Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets. The Company estimates that it will pay £30.3 million of employer contributions during 2016 at an average rate of 27% of pensionable pay.

The Group is currently finalising the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group is committing additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, has increased from £331 million in 2012 to £1,203 million in 2015 primarily due to the lower discount rate used following falls in market yields. The funding will be provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, paying £77 million in 2016, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, will continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, has also been agreed in support of these arrangements.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 20 Post-employment benefits (continued)

##### Pension scheme assets

The major categories of scheme assets are as follows:

	2015			2014		
	Quoted £ m	Unquoted £ m	Total £ m	Quoted £ m	Unquoted £ m	Total £ m
Equities	1,867.0	219.0	2,086.0	1,931.0	211.0	2,142.0
Diversified asset funds	47.0	-	47.0	42.0	113.0	155.0
Corporate Bonds	1,717.0	-	1,717.0	1,794.0	-	1,794.0
High yield debt	167.0	780.0	947.0	182.0	275.0	457.0
Liability matching assets	874.0	556.0	1,430.0	1,052.0	415.0	1,467.0
Property	-	315.0	315.0	-	324.0	324.0
Cash pending investment	60.0	-	60.0	61.0	-	61.0
Asset backed contribution assets	-	243.0	243.0	-	312.0	312.0
<b>Group pension scheme assets (i)</b>	<b>4,732.0</b>	<b>2,113.0</b>	<b>6,845.0</b>	<b>5,062.0</b>	<b>1,650.0</b>	<b>6,712.0</b>
Company share of the above (£m)	1,675.8	748.5	2,424.3	1,795.8	585.4	2,381.2

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

##### Defined contribution pension scheme

The total cost charged to income of £24.1m (2014: £22.1m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

#### 21 Capital and reserves

##### Allotted, called up and fully paid shares

	2015		2014	
	No. m	£ m	No. m	£ m
Ordinary Shares of £1 each	800	800	800	800

##### Share premium reserve

Consideration transferred in excess of the nominal value of ordinary shares is allocated to share premium.

##### Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Income Statement or Balance Sheet as and when the hedged item affects the Income Statement or Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **21 Capital and reserves (continued)**

##### **Share-based payments reserve**

The share-based payments reserve reflects the obligation to deliver shares to employees under the share schemes in return for services provided.

##### **Retained earnings**

The balance classified as retained earnings includes the profits and losses realised by the company in previous years that were not distributed to the shareholders of the company at the balance sheet date.

##### **Actuarial gains and losses reserve**

Cumulative actuarial losses on the defined benefit scheme are recognised in reserves.

#### **22 Share-based payments**

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 £20.7m (2014: £17.8m, before adjustment for taxation of £4m) which is shown under the financial line item 'Operating costs'. Over 90% of this share-based payment charge arose from four schemes: Deferred and Matching Share Scheme (DMSS), Long Term Incentive Scheme (LTIS), Share Award Scheme (SAS) and the On Track Incentive Plan (OTIP).

##### **Deferred and Matching Share Scheme**

Awards under the DMSS are generally reserved for employees within the senior executive group; this scheme is to be replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management. The vesting period is four years, comprising bonus year and three-year performance period. Participants must defer between 20% and 40% of annual pre-tax bonus into the scheme (as deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (as investment shares). Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over the three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years. Performance is measured through Group and segment Economic Profit (EP) targets. Leaving prior to the vesting date will normally mean forfeiting rights to deferred shares. Further information on the operation of the DMSS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 63 to 79 of the Centrica plc 2015 Annual Report and Accounts.

##### **Long Term Incentive Scheme**

Awards under the LTIS are available to employees within senior management. This scheme is to be replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management. The vesting period is three years following the grant date. For grants after 2012 the number of shares awarded is calculated according to EPS, Group EP, TSR and non-financial KPI's. For grants before 2012 the number of shares awarded is calculated according to EPS growth and TSR. Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years. Further information on the operation of the LTIS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 63 to 79 of the Centrica plc 2015 Annual Report and Accounts.



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 22 Share-based payments (continued)

##### Share Award Scheme

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels. 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.

##### On Track Incentive Plan

Awards under the OTIP are available to senior executives, senior and middle management. Shares vest subject to continued employment within Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on pages 63 to 79 of the Centrica plc 2015 Annual Report and Accounts.

##### Sharesave

All eligible employees of Centrica plc are entitled to participate in the HMRC-approved Sharesave. The plan offers a three or five-year savings period, with up to a 20% discount to the market value of the shares at the point of grant. Maximum contribution limits are set by legislation and the levels of participation allowed are within these limits and apply to all participants. Further information on the operation of the scheme can be found on pages 63 to 79 of the Centrica plc 2015 Annual Report and Accounts.

#### 23 Dividends paid and proposed

	2015 £ m	2014 £ m
<i>Declared and paid during the year</i>		
Final dividend of £Nil (2014 - £Nil) per ordinary share	-	-
Interim dividend of £0.688 (2014 - £0.688) per ordinary share	<u>550</u>	<u>550</u>
	<u>550</u>	<u>550</u>

On 27 November 2015 the Company paid an interim dividend of £550.0m to its immediate Parent undertaking GB Gas Holdings Limited (2014: £550.0m). The Directors do not recommend the payment of a final dividend (2014: £nil).

#### 24 Operating leases

##### Leases as lessee

At 31 December the company had annual commitments under non-cancellable operating leases for vehicles with the following maturity:

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 24 Operating leases (continued)

	2015 £ m	2014 £ m
Within one year	7.0	6.6
In two to five years	18.7	12.0
In over five years	1.4	0.4
	<u>27.1</u>	<u>19.0</u>

Included within future minimum lease payments above are the following amounts due to British Gas Finance Limited: £2.0m (2014: £1.5m) within one year, £13.1m (2014: £4.6m) between two and five years, and £1.4m (2014: £0.4m) over 5 years.

Payments under certain station tolling arrangements are contingent on the capacity being made available to the Company. This capacity is uncertain and can be made unavailable at short notice, which results in no costs being incurred by the Company. No commitments are therefore included in the above disclosure for these arrangements.

On 31 December 2013, British Gas Trading Limited sold its beneficial interest in certain contracts to two newly formed entities within the Centrica plc group; British Gas Energy Procurement Limited and Centrica Energy Marketing Limited (CEML). As a result of this sale, the entity now has back to back agreements in relation to tolling and renewables agreements. In the current year, BGTL paid lease rentals and received lessor income of £33.9m (2014: £60.4m) in relation to operating lease tolling rentals, and £66.8m (2014: £89.5m) in relation to renewables contingent rentals.

#### 25 Other commitments and contingencies

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back to back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited, a Centrica group company. The Company also enters into back to back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited, also a Centrica group company. The back to back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts. It is noted that these contracts are transferred via back to back agreements and therefore where such back to back agreements exist no commitments have been disclosed in these financial statements.

The Company also signed an agreement with BGEPL in which BGEPL agreed to source commodities as required by the Company the price for which is determined by the back to back contracts entered into by BGEPL. A fixed fee of £42m p.a. (indexed) is payable by the Company under the terms of this contract to reflect the activities and elements of risk taken on by BGEPL. The agreement remains operational until both parties agree to terminate the agreement. No commitments associated with this contract have been included in the disclosures below.

As at 31 December 2015, the Company is obligated to the following commitments, based on minimum contractual quantities (per contractual terms entered into), commodity purchase prices and foreign exchange rates as at the balance sheet date.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 25 Other commitments and contingencies (continued)

	2015 £m	2014 £m
LNG capacity	702.4	747.9
Transportation capacity	138.3	155.3
Energy Company Obligation	13.4	38.8
Customer loyalty points scheme	7.5	17.2
Outsourcing of services	41.8	34.5
Smart meters	168.5	66.9
Other commitments	11.9	7.1
	<u>1,083.8</u>	<u>1,067.7</u>

#### Commodity purchase contracts

The Company procures commodities to meet its downstream demand from BGEPL.

At 31 December the maturity analyses of the commodity purchase commitments on an undiscounted basis was as follows:

	2015 £ m	2014 £ m
Within one year	-	274.6
Between one and five years	-	785.8
	<u>-</u>	<u>1,060.4</u>

On 2 January 2015, continuing the process to increase clarity and transparency in financial reporting, the Company sold its beneficial interest in certain contracts via back to back agreements to CEML. As a result of this sale, certain commitments, previously held by the Company, have also been transferred. The fair value of these contracts was £185m.

#### Other guarantees and indemnities

In connection with Centrica plc group's energy trading, transportation and upstream activities, certain Centrica plc group companies, including the Company, 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 the Company, have entered into contracts under which they recognise their support for certain security obligations granted to third parties.

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, the Company sold its beneficial interest in its commodity purchase contracts to two newly formed entities within the Centrica plc group; BGEPL and CEML. Concurrently, the Company received a guarantee from GB Gas Holdings Limited in relation to all obligations in connection with these contracts transferred to BGEPL and CEML.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **26 Financial instruments at fair value**

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back to back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited, a Centrica group company. The Company also enters into back to back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited, also a Centrica group company. The back to back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts.

The purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that the original contracts entered into by BGTL and the related back to back arrangements constitutes a practice of taking delivery and selling in a short space of time. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's statement of financial position at fair value. Due to the beneficial interest contracts also being in the scope of IAS 39, and matching the underlying derivative contracts, this has the effect of grossing-up the Statement of Financial Position for the Company.

BGTL has entered into an agreement with BGEPL in which BGEPL agreed to source commodities as requested by BGTL, the price for which is determined by the back to back contracts entered into by BGEPL. This separate contract has been deemed to be an own-use contract for the Company since it only pays for commodities delivered and will only call on commodity purchases to meet its downstream demand. BGEPL is considered to be a principal in the transaction as it assumes the risk and rewards of balancing the purchase and sales contracts to meet the commodity needs of the Company.

See 'Critical accounting judgments and key sources of estimation uncertainty' (note 3) for the detailed accounting policy applied by BGTL for derivative financial instruments in these financial statements.

#### **Determination of fair values**

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc.

#### **Fair value hierarchy**

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, which are defined according to the inputs used to measure fair value as follows:

- Level 1: Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities.
- Level 2: Fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data.
- Level 3: Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in managements' best estimate of fair value.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 26 Financial instruments at fair value (continued)

##### *Financial instruments carried at fair value*

	Fair value and carrying value £ m	Fair value hierarchy	
		Level 2 £ m	Level 3 £ m
<b>31 December 2015</b>			
Derivative financial assets			
Energy derivatives - held for trading	2,384.6	1,661.3	723.3
Foreign exchange derivatives	273.7	273.7	-
Derivative financial assets - in hedge accounting relationships			
Foreign exchange derivatives	0.9	0.9	-
<b>Total financial assets at fair value</b>	<b>2,659.2</b>	<b>1,935.9</b>	<b>723.3</b>
Derivative financial liabilities			
Energy derivatives - held for trading	2,326.2	1,602.9	723.3
Foreign exchange derivatives	273.7	273.7	-
<b>Total financial liabilities at fair value</b>	<b>(2,599.9)</b>	<b>(1,876.6)</b>	<b>(723.3)</b>
<b>Total financial instruments at fair value</b>	<b>59.3</b>	<b>59.3</b>	<b>-</b>
<b>31 December 2014</b>			
Derivative financial assets			
Energy derivatives - held for trading	2,467.6	1,857.0	610.6
Foreign exchange derivatives	207.2	207.2	-
<b>Total financial assets at fair value</b>	<b>2,674.8</b>	<b>2,064.2</b>	<b>610.6</b>
Derivative financial liabilities			
Energy derivatives - held for trading	(2,229.0)	(1,618.4)	(610.6)
Foreign exchange derivatives	(207.2)	(207.2)	-
<b>Total financial liabilities at fair value</b>	<b>(2,436.2)</b>	<b>(1,825.6)</b>	<b>(610.6)</b>
<b>Total financial instruments at fair value</b>	<b>238.6</b>	<b>238.6</b>	<b>-</b>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 27 Related party transactions

The Company has taken advantage of the exemption within FRS 101 from disclosure of transactions with other wholly-owned Centrica plc Group companies and key management personnel compensation. 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.

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

##### Wind farm joint ventures

Barrow Offshore Wind Limited  
Glens of Foudland Wind Farm Limited  
Inner Dowsing Wind Farm Limited  
Lincs Wind Farm Limited  
Lynn Wind Farm Limited

##### Nuclear associates

EDF Energy Nuclear Generation Limited  
Lake Acquisitions Limited

These transactions and associated balances are as follows:

	2015 Wind Farm Joint ventures £ m	2015 Nuclear Associates £ m	2014 Wind Farm Joint ventures £ m	2014 Nuclear Associates £ m
Contract termination payment (i)	-	-	18.6	-
Purchase of power, ROCs and LECs	(122.8)	-	(126.0)	-
Purchase of power	-	(639.0)	-	(615.8)
Amounts owed by related parties	3.5	-	0.1	-
Amounts owed to related parties	<u>(31.9)</u>	<u>(60.8)</u>	<u>(26.7)</u>	<u>(57.6)</u>

(i) In 2014 a Power Purchase Agreement between British Gas Trading Limited and Barrow Offshore Wind Limited was terminated arising in a payment from Barrow Offshore Wind Limited of £18.6m.

No provision for bad or doubtful debts owed by related parties was required (2014: £nil).

##### Directors' remuneration

The directors' remuneration for the year was as follows:

	2015 £ m	As restated 2014 £ m
Directors' emoluments	2.1	1.5
Contributions into pension schemes	<u>0.1</u>	<u>0.1</u>
	<u>2.2</u>	<u>1.6</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 27 Related party transactions (continued)

In respect of the highest paid director:

	2015 £ m	As restated 2014 £ m
Remuneration	0.9	0.7
Company contributions to money purchase pension schemes	0.1	-

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

The prior year figures for aggregate emoluments paid to directors and remuneration of the highest paid director have been amended since the 2014 statutory accounts were finalised. This was due to a change in the method of allocation of emoluments to Group entities, as well as the inclusion of certain payments and allowances owed to directors.

The prior year emoluments have been restated to £1.5m (previously disclosed £1.3m).

The prior year remuneration figure has been restated to £0.7m (previously disclosed £0.6m).

During the year the number of Directors who received post-employment benefits and share incentives was as follows:

	2015 No.	2014 No.
Received or were entitled to receive shares under long term incentive schemes	5	4
Exercised share options	3	2
Accruing benefits under defined benefit pension scheme	3	3
Accruing benefits under money purchase pension scheme	<u>2</u>	<u>1</u>

#### 28 Parent and ultimate parent undertaking

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

The ultimate parent 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](http://www.centrica.com).

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **29 Non adjusting events after the financial year**

Following the Group's strategic review announced in 2015, the Company has incurred restructuring costs implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses and consultancy costs.

After a period of member consultation in 2016 the following amendments to the Registered Pension schemes were approved: an increase in member contributions; a change to the inflationary increases for future pension build up in retirement to the lower of CPI and 2.5%; and a pensionable salary cap for CPP and CPS only. These changes will largely offset the impact of the low yield environment. See note 20 (being the post-employment benefits note).

#### **British exit from the European Union**

In June, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. These movements could impact, amongst other things, the fair value of derivative financial instruments and other assets and the discount rate used to value the Company's Registered Pension Schemes. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

Overall, management assesses the direct impacts on the Company to be minimal in the short term. The Company's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy consumers in the UK. The Company does not export its products and services to EU countries nor does it have material exposure to currency risks.

#### **30 Transition to FRS 101**

As stated in the 'basis of preparation' note, these are the Company's first Financial Statements prepared in accordance with FRS 101. The accounting policies set out in the policies note have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the 'Company's date of transition').

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables as well as in the related footnotes.



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 30 Transition to FRS 101 (continued)

##### Statement of Financial Position as at 31 December 2014

	As originally reported £ m	Reclassification £ m	Re-measurement £ m	As restated £ m
<b>Non-current assets</b>				
Intangible assets	51.2	550.4	(9.6)	592.0
Property, plant and equipment	653.5	(550.4)	-	103.1
Investments	1,249.1	-	-	1,249.1
Deferred tax assets	8.9	-	-	8.9
Trade and other receivables	-	-	276.1	276.1
Derivative financial instruments	-	-	1,129.5	1,129.5
Retirement benefit assets	193.3	-	-	193.3
	<u>2,156.0</u>	<u>-</u>	<u>1,396.0</u>	<u>3,552.0</u>
<b>Current assets</b>				
Inventories	28.1	-	-	28.1
Trade and other receivables	4,711.3	-	11.8	4,723.1
Current tax assets	56.7	-	-	56.7
Derivative financial instruments	-	-	1,545.3	1,545.3
Cash and cash equivalents	126.0	-	-	126.0
	<u>4,922.1</u>	<u>-</u>	<u>1,557.1</u>	<u>6,479.2</u>
<b>Total assets</b>	<u>7,078.1</u>	<u>-</u>	<u>2,953.1</u>	<u>10,031.2</u>
<b>Current liabilities</b>				
Trade and other payables	(2,561.0)	-	-	(2,561.0)
Bank overdrafts, loans and other borrowings	(86.0)	-	(35.0)	(121.0)
Derivative financial instruments	-	-	(1,496.7)	(1,496.7)
Provisions for other liabilities and charges	(28.1)	-	-	(28.1)
	<u>(2,675.1)</u>	<u>-</u>	<u>(1,531.7)</u>	<u>(4,206.8)</u>
<b>Non-current liabilities</b>				
Trade and other payables	(17.3)	-	-	(17.3)
Bank overdrafts, loans and other borrowings	-	-	(201.7)	(201.7)
Deferred tax liabilities	(70.0)	-	(56.1)	(126.1)
Derivative financial instruments	-	-	(939.5)	(939.5)
Provisions for other liabilities and charges	(16.8)	-	-	(16.8)
	<u>(104.1)</u>	<u>-</u>	<u>(1,197.3)</u>	<u>(1,301.4)</u>
<b>Total liabilities</b>	<u>(2,779.2)</u>	<u>-</u>	<u>(2,729.0)</u>	<u>(5,508.2)</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 30 Transition to FRS 101 (continued)

	As originally reported £ m	Reclassification £ m	Re-measurement £ m	As restated £ m
<b>Capital and reserves</b>				
Share capital	800.0	-	-	800.0
Share premium reserve	447.2	-	-	447.2
Retained earnings and other reserves	3,051.7	-	224.1	3,275.8
<b>Total equity</b>	<u>4,298.9</u>	<u>-</u>	<u>224.1</u>	<u>4,523.0</u>

#### Reclassification

##### Computer software

Under FRS 101, only computer software that is integral to a related item of hardware should be included as PP&E. All other computer software should be recorded as an intangible asset. The impact at transition was to reclassify £550.4m of application software classified as PP&E under old UK GAAP to intangible assets.

#### Re-measurement

##### Goodwill

FRS 101 prohibits the amortisation of Goodwill; accordingly £8.2m of amortisation charged in the transition period has been reversed. This is offset by a remeasurement of the carrying value of Goodwill of £17.8m in the same period. An associated net adjustment to deferred tax of £3.2m has been made on transition.

#### Finance leases

BGTL has a tolling arrangement with Spalding Energy Company Limited (SECL), the subject of which is the Spalding power station. The toll commenced in 2004. Under old UK GAAP the arrangement was not treated as a lease, as IFRIC 4, the IFRS interpretation that means that contracts that are not in the legal form of a lease must be accounted for as if they are lease in certain circumstances, has no UK GAAP equivalent. Furthermore, on 31 December 2013, as part of the BGTL split transaction, BGTL transferred the beneficial interest in the arrangement to CEML. This was affected through a back-to-back arrangement, such that BGTL retains the external arrangement, but also has an "equal and opposite" legal arrangement with CEML on exactly the same terms. The combined effect is that upon transition to FRS 101 BGTL recognises a finance lease payable on the external arrangement with SECL and a finance lease receivable on the internal arrangement with CEML. The net effect is an increase in net assets of £51.2m on transition with an associated deferred tax effect of £10.6m.

#### Derivative financial instruments

Under IFRS, derivative financial instruments are required to be recognised on the statement of financial position at fair value, with changes in fair value recognised in either the income statement or through reserves, depending on whether hedge accounting is applied and its effectiveness within an entity. As this is not required under UK GAAP (unless fair value accounting rules are applied), such derivative financial instruments are generally not recognised. Accordingly net assets of £238.6m have been brought onto the statement of financial position under FRS 101 and a £47.8m deferred tax liability recognised.

#### Deferred tax on share options

Deferred tax on share options under FRS 101 requires a statement of financial position approach, giving rise to a temporary difference which creates a deferred tax asset under IAS 12; deferred tax and retained earnings have been restated by £0.9m accordingly in the transition period.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 30 Transition to FRS 101 (continued)

##### Income Statement for the year ended 31 December 2014

Note	As originally reported £ m	Reclassification £ m	Re-measurement £ m	As restated £ m
Turnover	11,089.1	-	51.4	11,140.5
Cost of sales	(9,387.5)	-	31.9	(9,355.6)
Gross profit/(loss)	1,701.6	-	83.3	1,784.9
Operating costs	(1,143.1)	(0.6)	8.2	(1,135.5)
<b>Operating profit/(loss)</b>	558.5	(0.6)	91.5	649.4
Finance income	110.4	(4.7)	48.1	153.8
Finance cost	(44.4)	5.3	(45.5)	(84.6)
<b>Profit/(loss) before income tax</b>	624.5	-	94.1	718.6
Income tax expenses	(112.2)	-	(17.7)	(129.9)
<b>Profit/(loss) for the financial year</b>	512.3	-	76.4	588.7

##### Reclassification

###### Capitalised interest

Under FRS 101, capitalised interest is offset within finance costs. It was previously shown within finance income under old UK GAAP. The reclassification in the year of transition is £5.3m.

###### PPF levy

Under old UK GAAP administrative expenses (including the PPF levy) relating to defined benefit schemes were recorded against return on scheme assets; IAS 19 (revised) specifically states that administrative expenses other than direct costs of managing the plan assets are not deducted from the return on plan assets but expensed in administrative expenses. In UK GAAP accounting the PPF levy was accordingly recorded against return on scheme assets. Under FRS 101 the PPF levy of £0.6m is expensed in administrative expense.

##### Re-measurement

###### Derivative financial instruments

Under IFRS, derivative financial instruments are required to be recognised on the statement of financial position at fair value, with changes in fair value recognised in either the income statement or through reserves, depending on whether hedge accounting is applied and its effectiveness within an entity. As this was not required under UK GAAP (unless fair value accounting rules were applied), such derivative financial instruments were generally not recognised, and as the Company had not adopted FRS 26, were not included in the 2014 Financial Statements. A £51.4m adjustment to revenue and a £31.9m adjustment to cost of sales have been recorded in the transition period as a result in changes in fair value in the year offset by tax of £16.7m.

###### Goodwill

FRS 101 prohibits the amortisation of goodwill; accordingly £8.2m of amortisation charged in the transition period has been reversed offset by tax of £0.4m.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)**

#### **30 Transition to FRS 101 (continued)**

##### **Finance leases**

BGTL has a tolling arrangement with Spalding Energy Company Limited (SECL), the subject of which is the Spalding power station. The toll commenced in 2004. Under old UK GAAP the arrangement was not treated as a lease, as IFRIC 4, the IFRS interpretation that means that contracts that are not in the legal form of a lease must be accounted for as if they are lease in certain circumstances, has no UK GAAP equivalent. Furthermore, on 31 December 2013, as part of the BGTL split transaction, BGTL transferred the beneficial interest in the arrangement to CEML. This was affected through a back-to-back arrangement, such that BGTL retains the internal arrangement, but also has an “equal and opposite” legal arrangement with CEML on exactly the same terms. The combined effect is that upon transition to FRS 101 BGTL recognises a finance lease payable on the external arrangement with SECL and a finance lease receivable on the internal arrangement with CEML. The net effect is income of £22.2m on transition with an associated tax effect of £4.4m.

##### **Pensions**

The re-measurement within the Income Statement represents the application of IAS 19 to the calculation of finance income and expense on the Company’s defined benefit pension scheme assets and liabilities. Under old UK GAAP, FRS 17 required the calculation of a gross finance income and expense on scheme assets and liabilities through the application of an expected asset rate of return and discount rate respectively. IAS 19 prohibits the use of a separate expected rate of return on scheme assets and requires application of the discount rate to the net scheme asset or liability. This has the effect of reducing finance income in the year of transition by £15.7m net of tax.

##### **Deferred tax on share options**

Deferred tax on share options under FRS 101 requires a statement of financial position approach, giving rise to a temporary difference which creates a deferred tax asset under IAS 12; deferred tax and retained earnings have been restated by £0.1m accordingly in the transition period.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

#### 30 Transition to FRS 101 (continued)

##### Statement of Comprehensive Income for the year ended 31 December 2014

	As originally reported	Re- measurement	As restated
	£m	£m	£m
<b>Profit for the year</b>	512.3	76.4	588.7
<b>Other comprehensive income: items that will not subsequently be reclassified to profit or loss</b>			
Net actuarial losses on defined benefit pension schemes	(26.4)	19.6	(6.8)
Taxation on net actuarial losses on defined benefit pension schemes	5.3	(3.9)	1.4
<b>Other comprehensive profit/(loss)</b>	<u>(21.1)</u>	<u>15.7</u>	<u>(5.4)</u>
<b>Total comprehensive income for the year</b>	<u>491.2</u>	<u>92.1</u>	<u>583.3</u>

#### Re-measurement

##### Pensions

The re-measurement within the Statement of Comprehensive Income represents the application of IAS 19 to the calculation of finance income and expense on the Company's defined benefit pension scheme assets and liabilities. Under old UK GAAP, FRS 17 required the calculation of a gross finance income and expense on scheme assets and liabilities through the application of an expected asset rate of return and discount rate respectively. IAS 19 prohibits the use of a separate expected rate of return on scheme assets and requires application of the discount rate to the net scheme asset or liability. This has the effect of reducing actuarial losses in the year of transition by £15.7m net of deferred tax.

##### Statement of Changes in Equity at 1 January 2014

	As originally reported 1 January 2014	Re- measurement	As restated 1 January 2014
	£m	£m	£m
Share capital	800.0	-	800.0
Share premium reserve	447.2	-	447.2
Retained earnings	3,092.8	135.9	3,228.7
<b>Total equity</b>	<u>4,340.0</u>	<u>135.9</u>	<u>4,475.9</u>

#### Re-measurement

The re-measurement within retained earnings above represents the following adjustments which also include any associated deferred tax effect: £124.2m profit being the recognition of the fair value of commodity contracts previously held off balance sheet according to UK GAAP; £22.8m profit being the re-measurement of amortisation of intangible assets; £44.4m loss on the recognition of a finance lease with respect to the Spalding tolling agreement; and a £3.1m profit on share based payments.