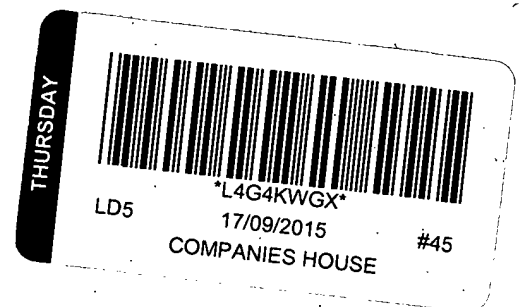


Registered number: 03078711

British Gas Trading Limited

**Annual Report and Financial Statements
for the Year Ended 31 December 2014**



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The Directors present the Strategic Report of British Gas Trading Limited (the Company) for the year ended 31 December 2014.

Business review

British Gas Trading Limited's principal business is 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.

The Company faced a challenging environment in 2014, with the warmest year on record in the UK, difficult trading conditions, major systems migrations, and continued political, regulatory and media focus. Against this backdrop the Company has a clear strategy focused on three priorities: deliver great service, transform to grow and engage our stakeholders.

The number of residential accounts on supply reduced by 368,000 in 2014 and ended the year at 14.8 million. We experienced significant losses in the first quarter of the year following an increase in residential prices in November 2013. However, the rate of losses was reduced over the balance of the year, with British Gas being the first energy company to reduce prices following proposed changes to the Energy Company Obligation (ECO) programme announced in December 2013, by improved service levels and the launch of competitively priced offerings. The market remains highly competitive, with recent reductions in standard tariffs and most suppliers offering a range of fixed price products.

Service levels in residential energy supply improved with average call answering times lower than 2013, helping drive a significant improvement in our contact net promoter score (NPS). The British Gas brand NPS also recovered during the year, ending in positive territory for the first time since March 2012. In the fourth quarter we completed the migration of all our residential customers onto a new customer relationship management platform, and the new system is helping deliver a more integrated customer experience.

In residential energy supply we continue to lead the industry in technology, innovation and smart connected homes. Around two-thirds of our customer interactions are made through digital channels, with around half of those now initiated from a mobile or tablet device. Customer downloads of our top-rated app have now surpassed 1.5 million and we were recently awarded 'Most Popular Website' in the utility category in the 'Website of the Year' 2014 awards.

We have installed around 1.3 million residential smart meters in the UK. Over 500,000 customers with smart meters now regularly receive our unique smart energy report 'my energy', which provides a comprehensive analysis of their energy consumption including a breakdown by type of use, benchmarking against similar homes, personalised energy saving tips and access to an online tool. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas.

We have taken the lead in the roll-out of smart meters to prepayment customers and the ongoing trial of our SMETS1 capable prepayment meter will enable us to commence the full roll-out by the end of 2015. Additionally we have also successfully trialled our smart meter enabled 'Free Saturdays or Sundays' energy tariffs, with a full launch planned in the second half of 2015.

We have now sold over 170,000 smart thermostats with sales of our Hive Active Heating™ product currently running at around 3,000 a week and have established retail partnerships with Apple, John Lewis and Amazon. Hive has been received extremely positively with over 90% of customers recommending the product and 96% saying they feel more in control of their heating than before.

Helping customers to reduce and control their energy consumption is the most sustainable way to keep bills down. We have made good progress in delivering our commitments under the ECO programme and we completed our March 2015 targets in December 2014, subject to Ofgem confirmation. To date, we have delivered energy efficient measures to over 350,000 households under the programme.

We continue to lead the industry in helping customers most in need and in 2014 we helped nearly 1.8 million households. There are also fewer residential energy customers in debt than a year ago and on average these customers have lower levels of debt. We have one of the widest eligibility criteria among all energy suppliers for the Warm Home Discount, which benefitted over 500,000 customers during the year by up to £140. The bills of our customers most in need were on average 13% lower in 2014 than in 2013.

In business energy supply and services the number of business supply points fell by 62,000 in 2014 reflecting the highly competitive conditions in the business energy market and our decision to lead the industry in ending the auto-rollover of contracts at renewal.

Business energy supply and services was impacted by issues following the implementation of a new billing and CRM system in 2014, which has resulted in significant delays to issuing customer bills. Customer service levels also suffered and in a competitive environment the number of supply points fell by 6% in the first half of 2015. We are currently undertaking an extensive transition recovery programme, including continued investment in additional resource. Most of the customers affected are now being served normally, and we currently expect to have resolved the issues by the end of 2015. We now expect to deliver £100 million of targeted reductions in operating costs and bad debt by the end of 2016, a year later than originally planned. These savings will help to offset the margin pressures from a competitive market. To drive growth in Business energy supply and services we are focusing our proposition development on dual fuel, energy efficiency and joint energy and services offers.

Principal risks and uncertainties

The key 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 40-45 of the Centrica plc 2014 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 these business units are included in the Centrica plc 2014 Annual Report and Accounts on pages 18 and 19.

Future developments

On 17 March 2015 the Company acquired AlertMe.com Limited, a UK-based connected homes company that provides innovative energy management products and services. The cost to British Gas Trading Limited was £57m. AlertMe.com Limited is the provider of the technical platform that underpins our existing connected homes activity, including Hive, and will enable ownership and control over a scalable technology platform, software development capability, data analytics and a patent portfolio.

We have a strong development pipeline of further innovative products with a 'connected boiler' and 'virtual in home display' both currently on commercial trial and with planned launch dates in the second half of 2015.

We are committed to offering competitively priced products. On 15 July 2015, we announced a further 5% reduction in our residential gas tariffs, effective from 27 August 2015. The reduction reflects lower projected costs for the rest of 2015 and 2016, and our commitment to offering competitive prices. This is the second gas price reduction in 2015, and combined with the 5% reduction in February 2015 brings a total annual average saving of £72 for our customers.

In light of changed circumstances the Group launched a fundamental strategic review in February, focused on: i) outlook and sources of growth; ii) portfolio mix and capital intensity; iii) operating capability and efficiency; and iv) Group financial framework. The conclusions of the strategic review were announced on 30 July 2015 as part of the Centrica plc interim results. The impact of this strategic review on the Company is yet to be fully determined but it will be the focus of the Directors during the remainder of 2015.

This report was approved by the board on 8 September 2015.



J. ELLIOT

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

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2014.

Future developments

Future developments are discussed in the Strategic Report. Refer to page 3.

Results and dividends

The results of the Company are set out on page 9. The profit for the financial year ended 31 December 2014 is £512.3m (2013: profit £567.4m). Total profits in 2014 include dividends received of £0.2m (2013: £0.2m).

On 6 December 2014 the Company paid an interim dividend of £550.0m to its immediate Parent undertaking GB Gas Holdings Limited (2013: £nil). The Directors do not recommend the payment of a final dividend (2013: £nil).

Financial position

The financial position of the Company is presented in the Balance Sheet on page 10. Total shareholder's funds at 31 December 2014 were £4,298.9m (2013: £4,340.0m).

Financial risk management

The key risks and uncertainties of the Company are discussed in the Strategic Report.

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to commodity price risk, counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors. An energy management team manages energy market price and volumetric risks.

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk arises as a result of contracted or forecast 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. The Company's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customer energy requirements. 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 24 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. In some cases, 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.

Directors

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

S D R Beynon
S J Buck (appointed 1 May 2015)
J M Campbell
I Peters
M R Uzielli (resigned 31 May 2015)
C P A Weston (resigned 30 December 2014)

Directors' and officers' liability

In accordance with the Articles of Association, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and officers of the Company. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2014 and remain in force.

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

Employment policies

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 Group's core priorities. We have continued to focus on improving process safety and we are updating our framework for managing process safety and have developed improvement programmes to help us better understand and reduce safety risks. Safety metrics are reported regularly to senior management and there were no significant process safety events in 2014.

Statement of Directors' responsibilities

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

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

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

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

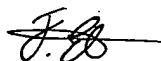
Disclosure of information to auditors

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

Independent auditors

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

This report was approved by the board on 8 September 2015.



J. ELLIOT

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

Independent Auditor's 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 2014 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

British Gas Trading Limited's financial statements comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss Account for the year then ended;
- the Statement of Total Recognised Gains and Losses; 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 their preparation is applicable law and United Kingdom Accounting Standards (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, the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 Strategic Report, Directors' report and financial statements 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.

Charles Bowman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

8 September 2015

Profit and Loss Account for the Year Ended 31 December 2014

		2014		2013
	Note	Total £m (i)	Continuing operations £m	Dis- continued operations £m (ii) Total £m
Turnover	2	11,089.1	12,351.8	15,315.5
Cost of sales		(9,387.5)	(10,431.8)	(13,309.4)
Gross profit		1,701.6	1,920.0	2,006.1
Administrative expenses		(1,143.1)	(1,146.0)	(1,210.2)
Operating profit	4	558.5	774.0	795.9
Income from other fixed asset investments		0.2		0.2
Loss on disposal of discontinued operations		-		(205.5)
Profit on ordinary activities before interest and taxation		558.7		590.6
Interest receivable and similar income	6	85.3		97.0
Interest payable and similar charges	6	(44.4)		(10.0)
Other finance income	6	24.9		23.6
Profit on ordinary activities before taxation		624.5		701.2
Tax on profit on ordinary activities	7	(112.2)		(133.8)
Profit for the financial year	21	512.3		567.4

(i) In the current year all results arise from continuing operations

(ii) Refer to note 1 – Principal accounting policies

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

Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2014

		2014 £m	2013 £m
Profit for the financial year	21	512.3	567.4
Net actuarial losses on defined benefit pension schemes	18	(26.4)	(31.1)
Taxation on net actuarial losses on defined benefit pension schemes	14	5.3	8.6
Total recognised gains relating to the year		491.2	544.9

The notes on pages 11 to 26 form part of these financial statements.

Balance Sheet as at 31 December 2014

	Note	2014 £m	2013 £m
Fixed assets			
Intangible assets	9	51.2	60.1
Tangible assets	10	653.5	600.4
Investments - shares in undertakings	11	1,249.1	1,249.1
		<u>1,953.8</u>	<u>1,909.6</u>
Current assets			
Stocks	12	28.1	26.9
Debtors: due within one year	13	4,768.0	5,110.1
Cash at bank and in hand	15	46.7	54.5
		<u>4,842.8</u>	<u>5,191.5</u>
Creditors: amounts falling due within one year	16	(2,567.7)	(2,799.3)
Net current assets		<u>2,275.1</u>	<u>2,392.2</u>
Total assets less current liabilities		4,228.9	4,301.8
Creditors: amounts falling due after more than one year	16	(17.3)	(10.2)
Provisions for liabilities	17	(67.4)	(104.1)
Net assets excluding pension assets / (liabilities)		<u>4,144.2</u>	<u>4,187.5</u>
Defined benefit pension assets	18	154.7	152.5
Net assets including pension assets / (liabilities)		<u>4,298.9</u>	<u>4,340.0</u>
Capital and reserves			
Called up share capital	19	800.0	800.0
Share premium account	21	447.2	447.2
Profit and loss account	21	3,051.7	3,092.8
Total shareholder's funds	22	<u>4,298.9</u>	<u>4,340.0</u>

The notes on pages 11 to 26 form part of these financial statements.

The financial statements on pages 9 to 26 were approved by the Board of Directors on 8 September 2015 and signed on its behalf by:



S Buck
Director
Company number 03078711

1. Principal accounting policies

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

Basis of preparation

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

The Company is a wholly-owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly-owned subsidiary undertaking whose ultimate parent company is Centrica plc. The Company has taken advantage of the exemptions within FRS 1, "Cash flow statements" (revised 1996), from presenting a cash flow statement; within FRS 2, "Accounting for subsidiary undertakings" and s400 of the Companies Act 2006, from consolidating its subsidiary undertakings and incorporating the results of its share of joint ventures and associates; and within FRS 8, "Related party disclosures", from disclosing transactions with other wholly-owned group companies.

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 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.

Critical accounting judgements and key sources of estimation uncertainty**(a) Critical judgements in applying the Company's accounting policies**

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

(i) Energy Company Obligation

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 and must be delivered by 31 March 2015 (ECO phase 1) and by 31 March 2017 (ECO phase 2). The Company continues to judge that it is not legally obligated by this order until 31 March 2015 and 31 March 2017 respectively. 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 has 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. The Company has now delivered in excess of those commitments.

(ii) Metering contracts

The Department of Energy and Climate Change (DECC) has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 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 at this point. As part of the smart meter rollout, the Company has entered into new meter rental arrangements with third parties. The Company judges these are not leases because it does not have the right to physically or operationally control the smart meters and other parties take a significant amount of the output from the assets.

(b) Key sources of estimation uncertainty

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

(i) Revenue recognition - unread gas and electricity meters

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

(ii) Industry reconciliation process - cost of sales

The industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operators deem the individual suppliers, including the Company, to have supplied to customers. 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.

1. Principal accounting policies (continued)**(iii) Recoverability of trade receivables**

Provision for uncollectible trade receivables is made when there is objective evidence that the Company may not be able to collect the trade receivable. Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days. Collectability of receivables from residential customers are generally reviewed on an individual basis once a customer discontinues their relationship with the Company. The provision for uncollectible trade receivables is based on an incurred loss model and is determined by application of expected default and loss factors, determined by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote.

(iii) Pensions

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 2014 Annual Report and Accounts.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be measured reliably. Turnover includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, value added tax and other sales-related taxes. Turnover is recognised on the basis of energy supplied or delivered during the year. Turnover for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within debtors. All turnover arises in the United Kingdom.

Cost of sales

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

Exceptional items

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

Employee share schemes

The Company accounts for share-based payments under FRS 20 "Share based payments". The Centrica plc group, to which British Gas Trading Limited belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 63-81 and in note S2 of the Centrica plc 2014 Annual Report and Accounts, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

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

LTIS: TSR award	A Monte Carlo simulation to predict the total shareholder return performance
SAS, DMSS and OTIP	Market value on the date of grant

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the sterling currency rate of exchange ruling at the balance sheet date. Exchange differences are recognised through the Profit and Loss account for the year. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Foreign currency transactions which have not been settled at the balance sheet date are translated at the rate prevailing at that date.

Goodwill

Goodwill arising on the acquisition of a business is included in the Balance Sheet at cost, less accumulated amortisation and any provisions for impairment. On the acquisition of a business, fair values are attributed to the assets and liabilities acquired. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period, which represents the Directors' estimate of its useful economic life. Goodwill is being amortised over periods ranging from 10 to 20 years. If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is recognised through the Profit and Loss account in the period of disposal as part of the gain or loss on disposal.

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

1. Principal accounting policies (continued)**Tangible fixed assets**

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

For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads. Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

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

Plant	5 to 20 years
Equipment and vehicles	3 to 10 years
Application software and licences	Up to 20 years

Asset impairments

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

Leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term in relation to the periods in which they fall due.

Investments

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

Stocks

Stocks, excluding Levy Exemption Certificates (LECs), are valued on a weighted average cost basis, at the lower of cost or estimated net realisable value after allowance for redundant and slow moving items. Refer to policy on LECs below.

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 the signing of the Kyoto Protocol. LECs are held on the balance sheet as stock, to the extent more have been purchased than have been sold on to customers. LECs are held at the lower of cost and net realisable value. The cost of purchasing LECs is recognised in cost of sales when sold to the customer.

Renewable Obligations 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 British Gas Energy Procurement Limited on behalf of British Gas Trading Limited. These are transferred at cost to British Gas Trading Limited 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 Profit and Loss account when received.

Pensions

The Company's employees participate in a number of the Group's defined benefit pension schemes. 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.

Provisions

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

Dividend income

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

1. Principal accounting policies (continued)**Taxation**

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

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

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

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

Deferred tax is measured on a non-discounted basis.

Financial instruments

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

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

The Company has not adopted FRS 26 or FRS 29 in respect of the fair value of financial instruments. In accordance with the Companies Act 2006, the fair values of the Company's derivative financial instruments have been analysed in note 24.

2. Turnover

All turnover arose in the United Kingdom.

	2014 £m	2013 £m (i)
Residential energy supply	8,327.2	9,486.1
Residential services	7.1	4.8
Business energy supply and services	2,754.8	2,860.9
	<u>11,089.1</u>	<u>12,351.8</u>
Wholesale and industrial gas and power sales	-	2,963.7
	<u>11,089.1</u>	<u>15,315.5</u>

(i) The comparative period has been restated to be consistent with the segmental information presented in the current year.

3. Exceptional items

	2014 £m	2013 £m
Loss on disposal of discontinued operations (i)	-	205.5
Exceptional expenses	-	205.5

(i) In the prior year, on 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, 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. As a result of this sale, the difference between the consideration and the book values of these assets and liabilities was recognised as a loss on disposal upon transfer. The loss recognised was equivalent to the fair value of commodity contracts disposed which were not held on the balance sheet due to the Company not having adopted FRS 26 or FRS 29.

4. Operating profit

Operating profit is stated after charging:

	Note	2014 £m	2013 £m
Amortisation of goodwill	9	8.9	8.9
Impairment of emissions allowances		-	8.8
Impairment – investments		-	4.2
Depreciation:			
Owned tangible fixed assets	10	82.8	78.0
Operating lease rentals:			
Vehicles		9.2	11.2
Tolling (i)		60.4	69.0
Renewables contingent rentals (i)		11.9	12.6
Auditors' remuneration:			
Statutory audit		0.8	0.9

(i) In the prior year, on 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, 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. As a result of this sale, the entity now has back to back agreements in relation to tolling and renewables agreements, and in the current year received lessor income of £60.4m in relation to operating lease tolling rentals, and £11.9m in relation to renewables contingent rentals.

Auditors' remuneration totalling £0.8m (2013: £0.9m) relates to fees for the audit of the 2014 UK GAAP financial statements of British Gas Trading Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica plc Group audit. Auditor's remuneration totalling £0.3m (2013: £0.4m) in relation to non-audit work in respect of the Company has been fully borne by Centrica plc.

5. Directors and employees**Average number of employees during the year**

The 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 average monthly number of employees, all employed in the United Kingdom, during the year was 13,417 (2013: 13,756). All employees were administrative and sales staff.

	2014 £m	2013 £m
Employee costs		
Wages and salaries	506.4	502.5
Social security costs	54.6	55.6
Other pension costs	54.5	51.7
Share scheme costs	17.7	17.5
	<u>633.2</u>	<u>627.3</u>

Directors' emoluments

The aggregate emoluments paid to Directors in respect of their qualifying services were £1.3m (2013: £1.4m). The aggregate value of Company contributions paid to a pension scheme in respect of Directors' qualifying services was £0.1m (2013: £0.1m).

There were 3 Directors (2013: 7) to whom retirement benefits are accruing under a defined benefit pension scheme and 1 Director (2013: 4) to whom retirement benefits are accruing under money purchase pension schemes.

There were 2 Directors (2013: 5) who exercised share options relating to the ultimate parent company and 5 Directors (2013: 10) who received shares in the ultimate parent Company in respect of their qualifying services under a long-term incentive scheme.

The highest paid Director received emoluments of £0.6m for services to the Company (2013: £0.3m) and the Company contributed £nil (2013: £36k) to their pension scheme. The highest paid Director is not accruing benefits under a money purchase or defined benefit pension scheme (2013: the highest paid Director was accruing benefits under a defined benefit pension scheme, the accrued value at the balance sheet date was £14k). In the prior year the highest paid Director received shares in respect of qualifying services under a long-term incentive scheme. In the prior year the highest paid Director exercised share options relating to the ultimate parent company.

Until his resignation from Directorship of the Company on 30 December 2014, C P Weston was also a Director of Centrica plc, the ultimate parent company. His emoluments and pension contributions in respect of their services to British Gas Trading Limited are £nil (2013: £nil). Details of their overall remuneration are included in the 2014 Centrica plc Annual Report and Accounts on pages 63 to 81.

6. Net interest

	2014 £m	2013 £m
Interest receivable and similar income		
Interest receivable from Group undertakings	79.4	84.8
Other interest receivable	5.9	12.2
	<u>85.3</u>	<u>97.0</u>
Interest payable and similar charges		
Notional interest arising on discounted items	-	(6.4)
Interest payable to Group undertakings	(12.0)	-
Foreign exchange losses	(31.4)	(0.8)
Other interest payable	(1.0)	(2.8)
	<u>(44.4)</u>	<u>(10.0)</u>
Other finance income		
Net return on pension schemes (see note 18)	24.9	23.6
	<u>24.9</u>	<u>23.6</u>
Net interest receivable	<u>65.8</u>	<u>110.6</u>

7. Tax on profit on ordinary activities**(a) Analysis of tax charge in the year**

	2014 £m	2013 £m
The tax charge comprises:		
Current tax		
United Kingdom corporation tax at 21.50% (2013: 23.25%)	119.4	125.7
Adjustments in respect of prior years	(20.1)	(32.2)
Total current tax	<u>99.3</u>	<u>93.5</u>
Deferred tax		
Effect of change to deferred tax rate	(0.8)	(8.4)
Origination and reversal of timing differences	15.9	47.4
Adjustments in respect of prior years	(2.2)	1.3
Tax on profit on ordinary activities	<u>112.2</u>	<u>133.8</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from that calculated at the standard rate of corporation tax in the UK 21.50% (2013: 23.25%). The differences are explained below:

	2014 £m	2013 £m
Profit on ordinary activities before taxation	624.5	701.2
Tax on profit on ordinary activities at standard UK corporation tax rate of 21.50% (2013: 23.25%)	134.2	163.0
Effects of		
Expenses not deductible for tax purposes	1.7	3.1
Dividend income not taxable	-	(0.1)
Depreciation (less than)/in excess of capital allowances	(4.9)	(4.1)
Utilisation of timing differences	(11.6)	(36.2)
Adjustments in respect of prior years	(20.1)	(32.2)
Current tax charge for the year	<u>99.3</u>	<u>93.5</u>

The main rate of corporation tax was reduced from 23% to 21% from 1 April 2014. A further reduction to reduce the rate to 20% from 1 April 2015 was substantively enacted in Finance Act 2013 on 2 July 2013 and has been reflected within these financial statements.

8. Dividends paid

	2014 £m	2013 £m
Interim dividend	550.0	-

On 6 December 2014 the Company paid an interim dividend of £550.0m to its immediate Parent undertaking GB Gas Holdings Limited (2013: £nil). The Directors do not recommend the payment of a final dividend (2013: £nil).

9. Intangible fixed assets

	Goodwill £m	Renewable obligation certificates £m	Total £m
Cost			
1 January 2014	138.3	-	138.3
Additions	-	341.5	341.5
Disposals	-	(341.5)	(341.5)
At 31 December 2014	138.3	-	138.3
Accumulated amortisation			
1 January 2014	(78.2)	-	(78.2)
Charge in the year (note 4)	(8.9)	-	(8.9)
At 31 December 2014	(87.1)	-	(87.1)
Net book value			
At 31 December 2014	51.2	-	51.2
As at 31 December 2013	60.1	-	60.1

Goodwill arose as part of the following acquisitions:

	Year of acquisition	Economic life in years	Original cost £m	Carrying amount £m
Trade and assets of Enron Direct	2001	15	57.0	7.3
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8.7	4.8
Trade and assets of Electricity Direct (UK) Limited	2005	15	24.9	10.0
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34.7	19.9
ECL Investments Limited and ECL Contracts Limited	2011	10	5.5	3.9
Hillserve Limited	2011	10	6.5	4.5
British Gas Direct Employment Limited	2012	10	1.0	0.8
			138.3	51.2

10. Tangible fixed assets

	Software £m	Plant, equipment and vehicles £m	Total £m
Cost	(i)	(i)	
1 January 2014	1,036.8	206.2	1,243.0
Additions	106.0	30.0	136.0
Disposals	-	(0.4)	(0.4)
At 31 December 2014	1,142.8	235.8	1,378.6
Accumulated depreciation			
1 January 2014	(528.5)	(114.1)	(642.6)
Charge for the year	(63.9)	(18.9)	(82.8)
Disposals	-	0.3	0.3
At 31 December 2014	(592.4)	(132.7)	(725.1)
Net book value			
At 31 December 2014	550.4	103.1	653.5
At 31 December 2013	508.3	92.1	600.4

(i) The brought forward amounts for Software and Plant, equipment and vehicles have been restated to be consistent with the classification in the current year.

11. Investments – shares in undertakings

Cost and net book value	Shares in undertakings £m
At 1 January and 31 December 2014	1,249.1

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

At 31 December 2014 the Company had interests in the issued ordinary share capital of the subsidiary undertakings:

Subsidiary undertaking	Business	Country of incorporation	Proportion of nominal value of ordinary shares held
British Gas Direct Employment Limited	Dormant	United Kingdom	100%
British Gas Energy Procurement Limited	Energy Procurement	United Kingdom	100%
ECL Contracts Limited	Dormant	United Kingdom	100%
ECL Investments Limited	Dormant	United Kingdom	100%
Electricity Direct (UK) Limited	Dormant	United Kingdom	100%
Hillserve Limited	Dormant	United Kingdom	100%
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%

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.

12. Stocks

	2014 £m	2013 £m
Raw materials and consumables	28.1	24.9
Certificates held in stock	-	2.0
	28.1	26.9

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

13. Debtors: due within one year

	2014 £m	2013 £m
Trade debtors	893.4	971.7
Accrued energy income	884.4	911.4
Amounts owed by group undertakings	2,581.1	2,970.5
Corporation tax	56.7	-
Other debtors	232.6	204.9
Prepayments and other accrued income	119.8	51.6
	<u>4,768.0</u>	<u>5,110.1</u>

The amounts owed by Group undertakings include £1,051.3m (2013: £1,291.0m) from Centrica plc which is interest-bearing; this is off-set by £719.0m non-interest bearing amount payable (2013: £179.1m) due to Centrica plc. Of the remaining amounts owed by Group undertakings £2,150.0m (2013: £2,153.1m) 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 1.69% and 1.90% per annum during 2014 (2013: 2.34% and 3.19%). The other amounts payable to/ receivable from Group undertakings are interest-free. All amounts payable to/ receivable from Group undertakings are unsecured and repayable on demand.

14. Deferred taxation

	At 1 January 2014 £m	Profit and loss charge/(credit) £m	Statement of Total Recognised Gains and Losses charge/(credit) £m	At 31 December 2014 £m
Deferred corporation tax				
- accelerated capital allowances	23.8	4.4	-	28.2
- other timing differences	(8.5)	2.8	-	(5.7)
Deferred tax liability	<u>15.3</u>	<u>7.2</u>	<u>-</u>	<u>22.5</u>
Deferred tax liability on net pension asset	38.1	5.8	(5.3)	38.6
Provision at end of year (i)	<u>53.4</u>	<u>13.0</u>	<u>(5.3)</u>	<u>61.1</u>

There are no amounts of unrecognised deferred tax (2013: £nil).

(i) Including deferred tax on net pension asset.

15. Cash at bank and in hand

	2014 £m	2013 £m
Cash at bank and in hand	<u>46.7</u>	<u>54.5</u>

16. Creditors

	2014 Amounts falling due within one year £m	2014 Amounts falling due after more than one year £m	2013 Amounts falling due within one year £m	2013 Amounts falling due after more than one year £m
Bank loans and overdrafts	6.7	-	36.9	-
Trade creditors	126.8	-	115.2	-
Amounts owed to group undertakings	756.2	-	930.9	-
Corporation tax	-	-	122.6	-
Other taxation and social security	22.5	-	23.1	-
Other creditors	445.9	-	491.4	-
Accruals and deferred income:				
Transportation	263.4	-	273.8	-
Other accruals and deferred income	946.2	17.3	805.4	10.2
	<u>2,567.7</u>	<u>17.3</u>	<u>2,799.3</u>	<u>10.2</u>

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

Within the amounts owed to Group undertakings is £658.3m (2013: £nil) 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 1.69% and 1.90% (2013: 2.34% and 3.19%). The other amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

17. Provisions for liabilities

	At 1 January 2014 £m	Unused and reversed £m	Profit and loss charge £m	Utilised £m	Transfers £m	At 31 December 2014 £m
Restructuring costs	26.7	-	0.5	(24.2)	2.5	5.5
Deferred tax (i) (note 14)	15.3	-	7.2	-	-	22.5
Other	62.1	(18.9)	9.9	(13.9)	0.2	39.4
	<u>104.1</u>	<u>(18.9)</u>	<u>17.6</u>	<u>(38.1)</u>	<u>2.7</u>	<u>67.4</u>

(i) Excluding deferred tax on pension asset (see note 18).

Restructuring costs

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

Other

The other provision includes, at 31 December 2014, £7.7m in relation to employer's national insurance charges expected to arise at exercise dates on employee share schemes, £11.1m in relation to legal claims, £13.2m in relation to SMART metering costs, £6.4m in relation to an onerous contract and £1.0m in relation to other minor provisions.

18. Pensions**(a) Summary of main schemes**

The Company's employees participate in the following defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), Centrica Engineers Pension Scheme (CEPS) and Centrica Unfunded Pension Scheme (CUPS). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 of the Centrica plc 2014 Annual Report and Accounts.

The CPP, CPS and CEPS form the majority of the Company's defined benefit obligation and are referred to below and in the Centrica plc 2014 Annual Report and Accounts as the 'Registered Pension Schemes'.

(b) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are provided in note 22 of the Centrica plc 2014 Annual Report and Accounts.

(c) Movement in the year

	2014 Pension liabilities £m	2014 Pension assets £m	2013 Pension liabilities £m	2013 Pension assets £m
1 January	(2,056.6)	2,247.2	(1,795.7)	1,874.5
Items included in the Profit and Loss account:				
Current service cost	(33.6)	-	(32.4)	-
Loss on curtailment	(2.8)	-	(0.8)	-
Past service credit	4.0	-	-	-
Interest on scheme liabilities	(94.3)	-	(85.7)	-
Expected return on scheme assets	-	119.2	-	109.3
Other movements:				
Actuarial (loss) / gain	(60.3)	33.9	(181.2)	150.1
Employer contributions	-	37.3	-	159.9
Plan participants' contributions	(0.3)	0.3	(2.0)	2.0
Benefits paid from schemes	56.7	(56.7)	48.6	(48.6)
Transfers from provisions for liabilities	(0.7)	-	(7.4)	-
31 December	<u>(2,187.9)</u>	<u>2,381.2</u>	<u>(2,056.6)</u>	<u>2,247.2</u>

	2014 £m	2013 £m
Net pension surplus	193.3	190.6
Related deferred tax liability	(38.6)	(38.1)
Net pension surplus after deferred tax	<u>154.7</u>	<u>152.5</u>
Presented in the balance sheet as:		
Defined benefit pension assets	154.7	152.5
Defined benefit pension liabilities	-	-
	<u>154.7</u>	<u>152.5</u>

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

	2014 £m	2013 £m
Actuarial gain (actual return less expected return on pension scheme assets)	33.9	150.1
Experience (loss) / gain arising on the scheme liabilities	(2.0)	5.3
Changes in assumptions underlying the present value of the scheme liabilities	(58.3)	(186.5)
Actuarial loss to be recognised in the Statement of Total Recognised Gains and Losses (i)	(26.4)	(31.1)
Cumulative loss recognised in reserves at 1 January (i)	(80.6)	(49.5)
Cumulative actuarial losses recognised in reserves at 31 December (i)	<u>(107.0)</u>	<u>(80.6)</u>

(i) Before adjustment for taxation.

18. Pensions (continued)**(e) Defined benefit pension scheme contributions**

Note 22 to the Centrica plc 2014 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 FRS 17, Retirement 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 £32.7 million of employer contributions during 2015 at an average rate of 28% of pensionable pay.

Although there is an FRS 17 accounting surplus in the Registered Pension Schemes, the pension trustees are required to calculate the funding position on a more prudent "Technical Provisions" basis. The next triennial review based on the position as at 31 March 2015 is in progress and because government bond yields are currently low this is likely to result in a Technical Provisions deficit in the Registered Pension Schemes. It is likely, therefore, that further deficit payments will be required following the triennial valuation.

(f) Defined contribution pension scheme contributions

The total cost charged to income of £22.1m (2013: £18.5m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

(g) Pension scheme assets

	2014 £m	2013 £m
Equities	2,142	1,766
Corporate bonds	1,794	1,571
Liability matching assets	1,467	1,241
High-yield debt	457	362
Diversified asset funds	155	403
Property	324	264
Cash pending investment	61	8
Asset backed contribution assets	312	379
Group pension scheme assets (i)	<u>6,712</u>	<u>5,994</u>
	2014 £m	2013 £m
Company share of above	2,381	2,247
Expected long-term rate of return on assets per annum	4.5%	5.5%

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

The overall expected rate of return on assets is a weighted average based on the actual plan assets held in each class and the expected returns on separate asset classes less costs of administering the plan and taxes paid by the plan itself. The returns on separate asset classes are based on the expected median return over a 10-year period (for equities, high-yield debt and property) and appropriate market indices (for corporate bonds and liability matching assets). These returns are calculated by the independent Company actuary, and adjusted for factors specific to the investment portfolio of the Centrica Combined Common Investment Fund.

(h) Histories	2014 £m	2013 £m	2012 £m	2011 £m
History of surplus				
Plan assets	2,381.2	2,247.2	1,874.5	1,572.5
Defined benefit obligations	<u>(2,187.9)</u>	<u>(2,056.6)</u>	<u>(1,795.7)</u>	<u>(1,440.0)</u>
Pension surplus	<u>193.3</u>	<u>190.6</u>	<u>78.8</u>	<u>132.5</u>
Difference between the expected and actual return on scheme assets	<u>33.9</u>	<u>150.1</u>	<u>173.2</u>	<u>(6.9)</u>
Experience (losses) / gains on scheme liabilities	<u>(2.0)</u>	<u>5.3</u>	<u>10.8</u>	<u>12.9</u>

19. Called up share capital

	2014 £m	2013 £m
Authorised, issued, allotted and fully paid		
800,000,100 ordinary shares of £1 each (2013: 800,000,100 ordinary shares of £1 each)	<u>800.0</u>	<u>800.0</u>

20. Share based payments**Summary of principal share-based payment plans and movements in the number of shares and options outstanding**

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in seven employee share schemes which gave rise to a charge of £17.7m (2013: £17.5m) which represents 2.8% (2013: 2.8%) of employee costs. Over 75% of this share-based payment charge arose from three schemes: Deferred and Matching Share Scheme (DMSS), Long Term Incentive Scheme (LTIS) and the Share Award Scheme (SAS).

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 81 of the Centrica plc 2014 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 81 of the Centrica plc 2014 Annual Report and Accounts.

Share Award Scheme

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

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 81 of the Centrica plc 2014 Annual Report and Accounts.

21. Reserves

	2014	2014	2014	2013
	Share premium account	Profit and loss account	Total	Total
	£m	£m	£m	£m
1 January	447.2	3,092.8	3,540.0	2,977.6
Profit for the financial year	-	512.3	512.3	567.4
Dividend paid	-	(550.0)	(550.0)	-
Employee share option schemes - value of services provided	-	17.7	17.7	17.5
Actuarial losses net of taxation	-	(21.1)	(21.1)	(22.5)
At 31 December	447.2	3,051.7	3,498.9	3,540.0

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

	Capital contribution reserve	Other	Total profit and loss account
	£m	£m	£m
At 1 January	106.7	2,986.1	3,092.8
Profit for the financial year	-	512.3	512.3
Dividend paid	-	(550.0)	(550.0)
Employee share option schemes - value of services provided	17.7	-	17.7
Actuarial losses net of taxation	-	(21.1)	(21.1)
At 31 December 2014	124.4	2,927.3	3,051.7

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

22. Reconciliation of movements in shareholder's funds

	2014 £m	2013 £m
1 January	4,340.0	3,777.6
Profit for the financial year	512.3	567.4
Dividend paid	(550.0)	-
Employee share option schemes - value of services provided	17.7	17.5
Actuarial losses net of taxation	(21.1)	(22.5)
At 31 December	4,298.9	4,340.0

23. Commitments and contingencies

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, 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. As a result of this sale, certain commitments, previously held by British Gas Trading Limited, have also been transferred to these entities. It is noted that these contracts were transferred via back to back agreements and therefore where such back to back agreements exist no commitments have been disclosed in these financial statements. British Gas Trading Limited also signed an agreement with British Gas Energy Procurement Limited in which British Gas Energy Procurement Limited agreed to source commodities as required by British Gas Trading Limited the price for which is determined by the back to back contracts entered into by British Gas Energy Procurement Limited, subject to certain caps and floors. A fixed fee of £42m p.a. (indexed) is also payable by British Gas Trading Limited under the terms of this contract to reflect the activities and elements of risk taken on by British Gas Energy Procurement Limited. 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.

	2014 £m	2013 £m
a) Commitments in relation to contracts		
Transportation capacity	155.3	159.0
LNG capacity	747.9	797.1
Energy Company Obligation (ECO)	38.8	255.2
Customer loyalty points scheme	17.2	34.3
Outsourcing of services	34.5	37.0
Meters	66.9	62.0
Other	7.1	9.0
	1,067.7	1,353.6

b) Lease commitments

At 31 December 2014, the Company had annual commitments under non-cancellable operating leases for vehicles expiring as follows:

	2014 £m	2013 £m
Within one year	0.4	0.8
Between two and five years	6.0	5.2
After five years	0.2	-
	6.6	6.0

Included within operating leases expiring between two and five years are annual commitments of £1.5m (2013: £1.1m) which are due to British Gas Finance Limited.

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.

23. Commitments and contingencies (continued)**c) Guarantees and indemnities**

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

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

d) Commodity purchase contracts

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

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. Further information about the Centrica plc group's procurement strategy is contained in note 23 of the Centrica plc 2014 Annual Report and Accounts.

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

	2014 £m	2013 £m
Within one year	274.6	-
Between one and five years	785.8	924.6
After five years	-	-
	<u>1,060.4</u>	<u>924.6</u>

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

24. Financial instruments

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

In accordance with para 37 of Schedule 1 SI 2008/410 of the Companies Act 2006, the fair values of the Company's derivative financial instruments are analysed below. These amounts are not included in the Balance Sheet as the Company has not adopted FRS26 "Financial Instruments: Recognition and Measurement".

	2014 £m	2013 £m
Financial instruments held for trading		
Energy derivatives – assets	238.6	155.3
Energy derivatives – liabilities	-	-
Foreign exchange swaps – assets	-	-
Foreign exchange swaps – liabilities	-	-
	<u>238.6</u>	<u>155.3</u>

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, 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. As a result of this sale, contracts that constitute derivative financial instruments, previously held by British Gas Trading Limited have also been transferred to these entities. The fair values of these contracts and the back-to-back contracts entered into to affect the transfer, which would offset one another, have not been included in this disclosure.

25. Related parties

The Company has taken advantage of the exemptions within FRS 8 "Related party disclosures" from disclosure of transactions with other wholly-owned Centrica plc Group companies. 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	Nuclear associates
Barrow Offshore Wind Limited	EDF Energy Nuclear Generation Limited
Glens of Foudland Wind Farm Limited	Lake Acquisitions Limited
Inner Dowsing Wind Farm Limited	
Lincs Wind Farm Limited	
Lynn Wind Farm Limited	

These transactions and associated balances are as follows:

	2014	2014	2013	2013
	Wind farm joint ventures	Nuclear associates	Wind farm joint ventures	Nuclear associates
	£m	£m	£m	£m
Power sales	-	-	-	27.1
Contract termination payment (i)	18.6	-	-	-
Purchase of power, ROCs and LECs	(126.0)	-	(110.2)	-
Purchase of power	-	(615.8)	-	(638.9)
Amounts owed by related parties	0.1	-	-	-
Amounts owed to related parties	(26.7)	(57.6)	(42.2)	(62.0)

(i) During the year 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 (2013: £nil).

26. Post balance sheet events

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

On 17 March 2015 British Gas Trading Limited acquired AlertMe.com Limited, a UK-based connected homes company that provides innovative energy management products and services. The cost to British Gas Trading Limited was £57m.

27. Ultimate parent undertaking

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

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