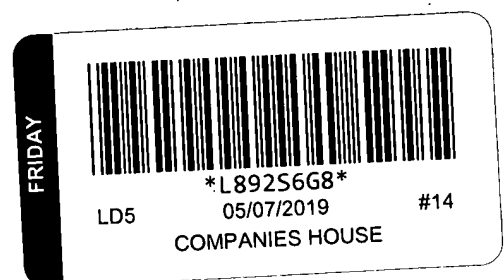


Registration number: 03078711

# British Gas Trading Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



# **British Gas Trading Limited**

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## **British Gas Trading Limited**

### **Company Information**

**Directors**  
G Barbaro  
R Roy  
S Sambhi  
C Miles  
I E Ronald  
M D Kirwan

**Company secretary** Centrica Secretaries Limited

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

**Independent Auditors** Deloitte LLP  
Statutory Auditor  
Hill House  
1 Little New Street  
London  
United Kingdom  
EC4A 3TR

## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2018**

The Directors present their Strategic Report for British Gas Trading Limited (the 'Company' or 'BGTL') for the year ended 31 December 2018.

#### **Principal activities**

The principal activities of the Company 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 for the Company, from the market and through bilateral contracts.

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

Our UK Home business experienced continued high levels of competitive intensity and regulatory change during 2018, in addition to periods of volatile weather conditions and commodity prices. Reflecting these factors, UK Home operating profit decreased.

Energy account holdings reduced by 742,000 in 2018, largely reflecting the highly competitive nature of the residential supply market. Despite the competitive pressures, the underlying rate of losses slowed compared to 2017, with 634,000 fewer net losses despite two increases in the Standard Variable Tariff (SVT) compared to one in 2017. The SVT for new customers was withdrawn at the end of March, in line with the commitment made in November 2017, and the year ended with 2.2 million fewer SVT accounts. For those customers who switched tariffs, 440,000 accounts were moved onto the new safeguard tariff for vulnerable customers, with the remainder choosing to move onto alternative fixed-term offers. The number of fixed-term accounts remained broadly flat over the year while there were 1.0 million accounts on the newly introduced Temporary Tariff.

Against the competitive backdrop, the range of offers and bundles continued to expand in response to customer demand. In 2018 new Online-Only, Tracker, Green, Electric Vehicle and Unlimited Usage energy tariffs were launched and delivered, the range of energy tariffs bundled with services and connected home offers was expanded. The British Gas Rewards programme now has 2 million customers signed up, with enrolled customer churn around half that of comparable non-Rewards customers. Increasingly sophisticated customer propensity and customer value modelling is also being used to drive retention and growth within higher value segments.

Delivering high levels of customer service remains a core priority and energy supply complaints fell by 1% in 2018, remaining at low levels relative to the industry. This reflects enhancements to the customer experience, through the redevelopment of key customer journeys through digital transformation, the continued simplification of bills and the roll-out of the next generation mobile app.

UK Business operating profit increased, with higher adjusted gross margin and lower adjusted operating cost, as periods of cold weather in Q1 2018 were managed well and there was no repeat of the Q1 2017 additional costs resulting from commodity volatility and energy volume settlements.

Despite a competitive backdrop, with around 95 active competitors at the end of 2018 compared to around 70 at the start of 2017, SME customer accounts increased by 6,000, or 1%, during the year. This reflects enhancements to customer offers through both direct and broker channels, including our online-only British Gas Lite tariff which has been designed around the needs of the smaller SME customers. The retention and acquisition focus remains on the higher value SME segments.

Industrial & Commercial customer account holdings reduced by 10,000, or 9%, as the renewal of some low value multi-site customers was not actively pursued, with acquisition and retention efforts focused on higher volume customers who have a greater propensity to take Distributed Energy & Power (DE&P) offers.

Operational performance has continued to improve resulting in better customer outcomes, with further improvements in billing accuracy and timeliness. The volume of calls fell by 105,000, or 11%, while customer complaints fell by 72% compared to 2017. In addition, the focus on improving our digital platform resulted in online self-service levels increasing to 51% from 44% in 2017. These enhancements are also enabling us to deliver cost efficiencies as we continue to work to deliver a simpler and more efficient service for customers.

## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **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.

Changes in government and regulatory policy, specifically relating to the UK Consumer Division's markets, could further erode our profit margins through price caps, or through additional obligations that increase operating costs. We are active in contributing our views on the development and regulation of the markets in which we operate. In relation to the UK energy market specifically, we have been in regular discussions with government, political parties and the regulator, Ofgem, to manage the risks of any intervention. We are committed to an open, transparent and competitive UK energy market that provides choice for consumers.

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risk and uncertainties of the Group, which include those of the Company, are disclosed on pages 41-51 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

#### **Exit from the European Union**

The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. Many details of the implementation process continue to remain unclear. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

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

Given the nature of the business, the Company's Directors are of the opinion that the KPIs necessary for an understanding of the development, performance and position of the Company are primarily profit before tax and net assets. The results of the Company are disclosed in the Directors' Report on page 5.

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 Group's Annual Report and Accounts 2018 on pages 18-19, which does not form part of this report.

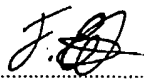
## **British Gas Trading Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Future developments**

The Group continues to implement the results of the 2015 strategic review. 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 the Company.

Approved by the Board on *27 June* 2019 and signed on its behalf by:

 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

## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2018**

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

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

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

S J Buck (resigned 24 January 2018)

G Barbaro

M S Hodges (resigned 28 February 2019)

R Roy

S Sambhi

C Miles

I E Ronald (appointed 24 January 2018)

The following director was appointed after the year end:

M D Kirwan (appointed 1 April 2019)

#### **Results and dividends**

The results of the Company are set out on page 11. The profit for the financial year ended 31 December 2018 is £483.1m (2017: £465.2m).

On 21 December 2018 the Company paid an interim dividend of £500.0m to its immediate parent undertaking, GB Gas Holdings Limited (2017: £227.0m). The Directors do not recommend a final dividend payment be made in respect of the financial year ended 31 December 2018 (2017: £nil).

The financial position of the Company is presented in the Statement of Financial Position on pages 13 and 14. Total equity at 31 December 2018 was £4,544.1m (2017: £4,440.1m).

#### **Charitable donations**

During the year the Company made contributions of £7.8m (2017: £11.0m) 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.

##### ***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. The 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.

## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

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

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

Certain procurement and sales contracts constitute derivative financial instruments. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery. Refer to note 27 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**

Safety is the number one priority of the Group and the focus in 2018 was to continue building safety capability across the business to keep our people and our customers safe. This continues to be priority in 2019.

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

The Group's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. The Group offers 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 are 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.

#### **Future developments**

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

#### **Events after the reporting period**

There have been no significant non-adjusting events after the reporting period.

#### **Going concern**

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company which intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

#### **Directors' and officers' liability**

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



## **British Gas Trading Limited**

### **Directors' Report for the Year Ended 31 December 2018 (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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have 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**

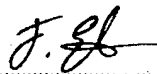
Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as Directors to make themselves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

#### **Auditors**

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

Approved by the Board on 27 June

2019 and signed on its behalf by:

 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

## **British Gas Trading Limited**

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

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of British Gas Trading Limited which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusion related to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

We have nothing to report in respect of these matters.

##### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

## **British Gas Trading Limited**

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

#### **Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters 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 the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

## **British Gas Trading Limited**

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

#### **Matters on which we are required to report by exception**

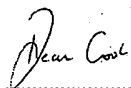
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



.....  
Dean Cook MA FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Hill House  
1 Little New Street  
London  
EC4A 3TR  
United Kingdom

21 June 2019

## British Gas Trading Limited

### Income Statement for the Year Ended 31 December 2018

	Note	2018 £ m	2017 £ m
Revenue	4	8,741.8	8,911.1
Cost of sales	5	<u>(7,306.2)</u>	<u>(7,338.4)</u>
Gross profit		1,435.6	1,572.7
Operating costs	5	(964.1)	(1,047.2)
Exceptional items - restructuring costs	7	<u>(87.3)</u>	<u>(47.4)</u>
Operating profit		384.2	478.1
Finance income	8	280.3	210.6
Finance cost	8	<u>(92.9)</u>	<u>(89.0)</u>
Profit before income taxation		571.6	599.7
Income tax expense	10	<u>(88.5)</u>	<u>(134.5)</u>
Profit for the year		<u>483.1</u>	<u>465.2</u>

The above results were derived from continuing operations.

# British Gas Trading Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ m	2017 £ m
Profit for the year	<u>483.1</u>	<u>465.2</u>
<b>Other comprehensive income</b>		
<b>Items that will not be recycled to the Income Statement</b>		
Net actuarial gains on defined benefit pension schemes	172.8	79.5
Taxation on net actuarial gains on defined benefit pension schemes	<u>(30.9)</u>	<u>(12.3)</u>
	141.9	67.2
<b>Items that will be or have been recycled to the Income Statement</b>		
Net loss on cash flow hedges	<u>(0.9)</u>	<u>(3.1)</u>
Other comprehensive income net of taxation	<u>141.0</u>	<u>64.1</u>
Total comprehensive income for the year	<u>624.1</u>	<u>529.3</u>

# British Gas Trading Limited

## Statement of Financial Position as at 31 December 2018

	Note	2018 £ m	2017 £ m
<b>Non-current assets</b>			
Property, plant and equipment	11	50.5	73.9
Intangible assets	12	484.4	504.8
Deferred tax assets	10	3.5	7.7
Investments	13	-	59.8
Trade and other receivables, and contract-related assets	14	131.9	147.1
Retirement benefit assets	21	281.1	111.0
Derivative financial instruments	15	464.5	452.7
		<u>1,415.9</u>	<u>1,357.0</u>
<b>Current assets</b>			
Trade and other receivables, and contract-related assets	14	6,436.4	6,635.4
Inventories	16	12.0	10.3
Derivative financial instruments	15	624.1	699.5
Current tax asset		161.5	122.7
Cash and cash equivalents		42.3	39.3
		<u>7,276.3</u>	<u>7,507.2</u>
<b>Total assets</b>		<u>8,692.2</u>	<u>8,864.2</u>
<b>Current liabilities</b>			
Trade and other payables, and contract-related liabilities	17	(2,754.6)	(2,950.7)
Derivative financial instruments	18	(643.6)	(709.0)
Provisions for other liabilities and charges	19	(34.4)	(23.0)
Borrowings	20	(51.3)	(65.5)
		<u>(3,483.9)</u>	<u>(3,748.2)</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	(85.5)	(70.1)
Trade and other payables, and contract-related liabilities	17	(25.0)	(21.6)
Derivative financial instruments	18	(469.9)	(457.9)
Provisions for other liabilities and charges	19	(17.0)	(24.9)
Borrowings	20	(66.8)	(101.4)
		<u>(664.2)</u>	<u>(675.9)</u>
<b>Total liabilities</b>		<u>(4,148.1)</u>	<u>(4,424.1)</u>
<b>Net assets</b>		<u>4,544.1</u>	<u>4,440.1</u>

The notes on pages 16 to 50 form an integral part of these financial statements.

## British Gas Trading Limited

### Statement of Financial Position as at 31 December 2018 (continued)

	Note	2018 £ m	2017 £ m
<b>Equity</b>			
Share capital	22	800.0	800.0
Share premium	22	447.2	447.2
Retained earnings	22	3,421.6	3,438.0
Cash flow hedging reserve	22	(0.1)	0.8
Share-based payments reserve	22	83.1	103.8
Actuarial gains and losses reserve	22	(207.7)	(349.7)
<b>Total equity</b>		<b>4,544.1</b>	<b>4,440.1</b>

The financial statements on pages 11 to 50 were approved and authorised for issue by the Board of Directors on 27 Feb 2019 and signed on its behalf by:



I E Ronald

Director

Company number 03078711



**British Gas Trading Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2018**

	Share capital £ m	Share premium £ m	Cash flow hedge reserve £ m	Share-based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2018	800.0	447.2	0.8	103.8	(349.6)	3,438.5	4,440.7
Profit for the year	-	-	-	-	-	483.1	483.1
Other comprehensive income/(expense)	-	-	(0.9)	-	141.9	-	141.0
Total comprehensive income/(expense)	-	-	(0.9)	-	141.9	483.1	624.1
Dividends	-	-	-	-	-	(500.0)	(500.0)
Share schemes: Exercise of awards	-	-	-	(27.4)	-	-	(27.4)
Share schemes: Value of shares provided	-	-	-	6.7	-	-	6.7
At 31 December 2018	800.0	447.2	(0.1)	83.1	(207.7)	3,421.6	4,544.1

	Share capital £ m	Share premium £ m	Cash flow hedge reserve £ m	Share-based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2017	800.0	447.2	3.9	103.3	(416.9)	3,199.8	4,137.3
Profit for the year	-	-	-	-	-	465.2	465.2
Other comprehensive income/(expense)	-	-	(3.1)	-	67.2	-	64.1
Total comprehensive income/(expense)	-	-	(3.1)	-	67.2	465.2	529.3
Dividends	-	-	-	-	-	(227.0)	(227.0)
Share schemes: Exercise of awards	-	-	-	(5.6)	-	-	(5.6)
Share schemes: Value of shares provided	-	-	-	6.1	-	-	6.1
At 31 December 2017	800.0	447.2	0.8	103.8	(349.7)	3,438.0	4,440.1

The notes on pages 16 to 50 form an integral part of these financial statements.  
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## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **1 General information**

British Gas Trading Limited (the 'Company') is a private company limited by shares incorporated and domiciled in the United Kingdom and registered in England and Wales.

The registered office and principal place of business is:

Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 4

#### **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.

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 (CEML). 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 (BGEPL). 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, were also transferred.

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.

From 1 January 2018, the following standards and amendments became effective in the Company's financial statements and did not have a material impact:

- IFRS 15: 'Revenue from contracts with customers';
- IFRIC 22 'Foreign currency transactions and advance consideration';
- Amendment to IFRS 2: 'Share-based payments';
- Amendment to IFRS 4: 'Insurance contracts';
- Amendment to IAS 40: 'Investment property'; and
- Annual improvements 2014- 2016 cycle.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

Standards and amendments that are issued but not yet applied by the Company:

The Company has not applied the following standards and amendments in the Company's financial statements as they are not yet effective, although they have been endorsed by the EU and will be effective 1 January 2019, unless otherwise indicated. Their adoption is not expected to have a material impact on the Company's financial statements:

- IFRS 16: 'Leases';
- IFRIC 23: 'Uncertainty over income tax treatment';
- Amendment to IAS 28: 'Investments in associates; and
- Amendment to IFRS 9: 'Financial instruments'.

#### **IFRS 9: 'Financial Instruments'**

The Company adopted IFRS 9: 'Financial Instruments' from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

#### **Classification of financial assets**

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

#### **Impairment**

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets and loan commitments. There was no material impact on the financial statements.

Credit losses on financial assets are now disclosed separately on the face of the Income Statement in accordance with IAS 1: 'Presentation of financial statements'.

#### **Hedge accounting**

The Company has not applied IFRS 9's hedge accounting requirements and continues to account for its hedge relationships in accordance with IAS 39.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment and intangible assets;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

#### **Measurement convention**

The financial statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101; derivative financial instruments, available for sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition and the Company's share of the assets of the Group's defined benefit pension schemes that have been measured at fair values; the Company's share of the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying value of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

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

The Company has used a true and fair 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 £3.0 million would have been charged to the Income Statement.

##### **Going concern**

The financial statements have been prepared using the going concern basis of accounting.

##### **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**

The Company supplies gas and electricity to residential and business customers in the UK. The vast majority of contractual energy supply arrangements have no fixed duration, require no minimum consumption by the customer and can be terminated by either party at any time. The Company has determined that no enforceable rights and obligations exist at inception of the contract and arise only once the cooling off period is complete and the Group is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised. In respect of energy supply contracts, the Company considers that it has the right to consideration from the customer for an amount that corresponds directly with the value delivered to the customer through their consumption. It is the judgement of the Company that the customer consumes energy as the Company supplies and, as a result, the Company recognises revenue for the amount which the entity has a right to invoice. The Company's assessment of the amount that it has a right to invoice includes an assessment of energy supplied to customers between the date of the last meter reading the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue and 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 readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

##### **Cost of sales**

Energy supply includes the cost of gas and electricity produced and 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 2018 (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 90-109 and in note S2 to the Group Annual Report and Accounts 2018, 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 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.

When the options are exercised the Company is recharged the options' original fair value as of the grant date from Centrica plc. This recharge is accounted for as a deduction from equity.

##### **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 borrowings, with the amount payable within 12 months included in borrowings within current liabilities.

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.

##### **Exceptional items**

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

##### **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 2018 (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 functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

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 reporting date. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill 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 is provided on temporary differences arising on investments in 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.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the reporting date.

##### **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 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.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 2 Accounting policies (continued)

##### 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. ROCs 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:

Asset classes	Amortisation method and rate
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.

##### Depreciation of PP&E

Depreciation is charged as follows:

Asset classes	Depreciation method and rate
Plant	Straight line, between 5 and 20 years
Equipment and vehicles	Straight line, between 3 and 10 years

Assets held under finance leases are depreciated over their expected useful 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 asset investments in subsidiaries are held at deemed cost on transition to FRS101 and in accordance with IAS 27, less any provision for impairment as necessary.

##### Inventories

Inventories, excluding inventories of gas and oil and Levy Exemption Certificates, 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, which was introduced in the UK following signing of the 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 recognised in cost of sales when sold to the customer.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

##### **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 reporting 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.

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

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 into 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.

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

##### **Impairment**

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 ('CGU') 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 CGU). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs.

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 the Income Statement. An impairment loss in respect of goodwill shall not be reversed in a subsequent period. 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.

The Company provides for impairments of financial assets when there is objective evidence of impairment as a result of events that impact the estimated future cash flows of the financial assets.



## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

##### **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.

##### **(a) 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 the original invoice amount and are subsequently held at amortised cost using the effective interest method (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 Company 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.

##### **(b) 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 the original invoice amount and are subsequently held at amortised cost using the effective interest 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.

##### **(c) 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.

##### **(d) 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.

##### **(e) Loans and other borrowings**

All interest-bearing and interest free loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, these financial instruments are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

##### **(f) Derivative financial instruments**

See 'Key sources of estimation uncertainty' (note 3) for the detailed accounting policy applied by the Company for derivative financial instruments in these financial statements.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

##### **(g) 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. 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 reporting 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.

##### **Critical judgements in applying the Company's accounting policies**

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

The Energy Company Obligation ('ECO') order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households. Targets are set in proportion to the size of historic customer bases. ECO phase 1 and ECO phase 2 had delivery dates of 31 March 2015 and 30 September 2018 (extended from 31 March 2017), respectively.

ECO phase 3 is currently effective with a delivery date of 31 March 2022. Although this phase includes certain sub-obligations, there are no interim targets and, consistent with previous years, the Company continues to judge that it is not legally obligated by the order until delivery date. Accordingly, the costs of delivery are recognised as incurred, when cash has been spent or unilateral commitments made, resulting in obligations that cannot be avoided.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

##### **Smart Metering contracts**

The Department for Business, Energy & Industrial Strategy 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.

In 2015, as part of the smart meter roll-out, the Company renewed meter rental arrangements with third-parties, with a further extension of one contract in 2018. The Company assessed that these were not leases because at inception of the contract there were no specified assets, the Company did not have the right to physically or operationally control the smart meters and other parties also took more than an insignificant amount of the output from the assets.

##### **UK Capacity Market**

The UK capacity market for power was designed to encourage investment in reliable capacity to secure future supplies of electricity for the UK. To achieve this, it offered fixed monthly payments to generators who had won capacity market contracts in the auctions, funded by energy suppliers (in proportion to their share of the UK electricity supply market). On 15th November 2018, the European Court of Justice annulled the European Commission's decision not to raise objections to the state aid scheme establishing a capacity market in the UK. This had the effect of placing the UK capacity market in standstill from the start of the current capacity year (commencing 1st October 2018). No payments, either to generators or from suppliers, can be made under the scheme until a new approval is received from the European Commission confirming that the scheme does not breach state aid regulations. As a result, the Company has made the following accounting judgments for the period October - December 2018:

No capacity market supplier liability or charge has been recognised in relation to UK Home's share of the UK electricity supply market. There is currently no obligation to pay under the Supplier Charges Regulations and accordingly any liability is contingent on both the future design and approval of a capacity market scheme.

##### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting 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 (known as unread revenue). 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 readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Company, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Company expects to be entitled to in exchange for energy supplied. 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 revenue recognised. The adjustments for imbalance at 31 December 2018 are not significant. However, changes resulting from these management estimates can be material with adjustments of up to £30 million having been made in the last few years.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

##### **Industry reconciliation process - cost of sales**

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 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 industry deemed supply. The Company 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 developing industry settlement procedures.

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

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

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

The Company (BGTL) 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 ('CEML'), a 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 ('BGEPL'), also a 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 span 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 2018 of the ultimate controlling party, being Centrica plc, on pages 41 to 50 and in note S3.

The accounting treatment for derivatives is also 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 2018 (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 Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. Further detail is provided in note 21 to the financial statements.

##### **Credit provisions for trade and other receivables**

The provision for credit losses for trade receivables, contract assets and finance lease receivables is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. A default rate is calculated according to historical loss experience and applied to trade receivables with similar characteristics, including consideration of the nature of the customer and, where relevant, the sector in which they operate, the payment method selected and the timeliness of the payment based on historical trends. The characteristics used to determine the groupings of receivables are considered to be the factors that have the greatest impact on the likelihood of default. The rate of default increases once the balance is 30 days past due and subsequently in monthly increments. Balances are written off when recoverability is assessed as being remote. The impairment charge in trade receivables is stated net of creditors for the release of specific provisions made in previous years, which are no longer required.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 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:

	2018 £ m	2017 £ m
Energy supply to residential customers	6,915.1	7,077.2
Energy supply to business customers <sup>(i)</sup>	1,826.7	1,833.9
	<u>8,741.8</u>	<u>8,911.1</u>

<sup>(i)</sup> Revenue from energy supply to business customers contains unrealised mark to market losses of £10.2m (2017: £11.8m gains)

The Company applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligation in accordance with Paragraph B16, as described at note 2.

**British Gas Trading Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

**5 Analysis of costs by nature**

	2018			2017		
	Cost of sales £ m	Operating costs £ m	Total costs £ m	Cost of sales £ m	Operating costs £ m	Total costs £ m
Transportation, distribution and metering costs	2,656.9	-	2,656.9	2,803.0	-	2,803.0
Commodities costs	3,142.5	-	3,142.5	2,754.9	-	2,754.9
Depreciation, amortisation, impairment and write-downs	-	121.8	121.8	-	129.2	129.2
Employee costs	116.1	354.9	471.0	119.7	404.9	524.6
Impairment of trade receivables	-	86.8	86.8	-	87.0	87.0
Vehicle operating lease rentals	-	9.9	9.9	-	10.9	10.9
Other operating costs	1,390.7	390.7	1,781.4	1,660.8	415.2	2,076.0
<b>Total operating costs by nature</b>	<b>7,306.2</b>	<b>964.1</b>	<b>8,270.3</b>	<b>7,338.4</b>	<b>1,047.2</b>	<b>8,385.6</b>



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (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. Certain of these employees provide services to certain fellow subsidiaries for which those fellow subsidiaries are recharged. The staff costs of these employees are included in the disclosures below and a separate recharge included in other operating costs. 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:

	2018 £ m	2017 £ m
Wages and salaries	385.7	427.5
Social security costs	33.3	40.8
Pension and other post-employment benefit costs	45.0	50.2
Share-based payment expenses	7.0	6.1
	<u>471.0</u>	<u>524.6</u>

The average monthly number of persons employed by the Company (including Directors) during the year was 10,785 (2017: 12,924). All employees were administrative and sales staff, employed in the United Kingdom.

#### 7 Exceptional items

The following exceptional items were recognised in arriving at operating profit for the year:

	2018 £ m	2017 £ m
Restructuring costs	87.2	47.4
Impairment charges	0.1	-
	<u>87.3</u>	<u>47.4</u>

Following the extensive 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 the closure of businesses, consultancy costs and additional costs associated with the making good of product defects.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 8 Net finance income/(cost)

##### Finance income

	2018 £ m	2017 £ m
Interest income from amounts owed by Group undertakings	229.0	154.0
Interest income on bank and other short-term deposits	0.5	0.5
Contingent rents received in respect of finance leases	15.9	14.5
Net foreign exchange gains on financing transactions	-	3.0
Interest on assets under finance leases	27.9	33.6
Other finance income	7.0	5.0
<b>Total finance income</b>	<b>280.3</b>	<b>210.6</b>

##### Finance costs

	2018 £ m	2017 £ m
Interest on amounts owed to Group undertakings	(42.8)	(40.5)
Interest on bank overdrafts and borrowings	(1.1)	(1.3)
Contingent rents paid in respect of finance leases	(40.1)	(38.7)
Interest on obligations under finance leases	(6.7)	(8.5)
Net foreign exchange losses on financing transactions	(2.2)	-
	<b>(92.9)</b>	<b>(89.0)</b>
<b>Total finance cost</b>	<b>(92.9)</b>	<b>(89.0)</b>
<b>Net finance income</b>	<b>187.4</b>	<b>121.6</b>

<sup>(i)</sup> Borrowing costs have been capitalised using an average rate of 4.75% (2017: 4.55%).

#### 9 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2018 £ m	2017 £ m
Audit fees	0.1	0.1

Auditors' remuneration relates to fees for the audit of the financial statements of the Company.

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 accounts of its ultimate parent, Centrica plc.

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 10 Income tax

Tax charged/(credited) in the Income Statement

	2018 £ m	2017 £ m
<b>Current tax</b>		
UK corporation tax	116.6	96.0
UK corporation tax adjustment to prior years	(16.8)	22.2
<b>Total current tax</b>	<b>99.8</b>	<b>118.2</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences - UK	(8.8)	20.4
Changes in tax rates	(1.3)	(0.4)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior years	(1.2)	(3.7)
<b>Total deferred tax</b>	<b>(11.3)</b>	<b>16.3</b>
<b>Tax on profit</b>	<b>88.5</b>	<b>134.5</b>

The Company earns its profits in the UK. These UK activities are subject to the standard rate for UK corporation tax, which for 2018 was 19.0% (2017: 19.25%)

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

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

	2018 £ m	2017 £ m
Profit before tax	571.6	599.7
Tax on profit at standard UK corporation tax rate of 19.0% (2017: 19.25%)	108.6	115.4
<b>Effects of:</b>		
Net expenses non-deductible for tax purposes	(0.3)	(1.2)
Adjustments in respect of prior years	(18.0)	18.6
Increase arising from group relief tax reconciliation	3.6	3.4
Decrease from transfer pricing adjustments	(3.6)	(3.4)
Deferred tax credit relating to changes in tax rates	(1.3)	(0.4)
Other tax effects for reconciliation between accounting profit and tax expense	(0.5)	2.1
<b>Total tax charge</b>	<b>88.5</b>	<b>134.5</b>

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 10 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 £ m	Total £ m
1 January 2017	17.6	38.3	(22.3)	33.6
Charged/(credited) to the Income Statement	(3.3)	(6.7)	26.3	16.3
Charged/(credited) to other comprehensive income	-	-	12.3	12.3
Charged/(credited) to equity	-	0.2	-	0.2
31 December 2017	14.3	31.8	16.3	62.4
Charged/(credited) to the Income Statement	(8.9)	(1.5)	(0.9)	(11.3)
Charged/(credited) to other comprehensive income	-	-	30.9	30.9
31 December 2018	5.4	30.3	46.3	82.0

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 and associated offsetting balances for financial reporting purposes:

	2018		2017	
	Assets £ m	Liabilities £ m	Assets £ m	Liabilities £ m
Gross deferred tax balances crystallising within one year	2.3	(5.0)	6.5	(6.5)
Gross deferred tax balances crystallising after one year	1.2	(80.5)	1.2	(63.6)
	3.5	(85.5)	7.7	(70.1)

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 10 Income tax (continued)

#### Tax directly recognised in equity

	2018 £ m	2017 £ m
<i>Deferred tax recognised directly in equity</i>		
Post-employment benefits	30.9	12.3
Share option schemes		0.2
Total tax recognised directly in equity	<u>30.9</u>	<u>12.5</u>

### 11 Property, plant and equipment

	Plant, equipment and vehicles £ m
<b>Cost</b>	
At 1 January 2018	153.6
Additions and capitalised borrowing costs	9.5
Disposals and surrenders	(10.4)
Transfers to subsidiary undertaking	(11.0)
At 31 December 2018	<u>141.7</u>
<b>Accumulated depreciation</b>	
At 1 January 2018	79.7
Depreciation charge for the year	21.9
Disposals and surrenders	(10.4)
At 31 December 2018	<u>91.2</u>
<b>Net book value</b>	
At 31 December 2018	<u>50.5</u>
At 31 December 2017	<u>73.9</u>

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:

	2018 £ m	2017 £ m
Plant, equipment and vehicles	<u>7.1</u>	<u>20.0</u>

# British Gas Trading Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 12 Intangible assets

	Customer relationship and brands £ m	Application software £ m	Goodwill £ m	Total £ m
<b>Cost or valuation</b>				
At 1 January 2018	45.2	974.7	33.2	1,053.1
Additions and capitalised borrowing costs	-	91.6	-	91.6
Disposals and surrenders	(0.1)	(14.0)	-	(14.1)
Transfers to subsidiary undertaking	-	(12.2)	-	(12.2)
At 31 December 2018	<u>45.1</u>	<u>1,040.1</u>	<u>33.2</u>	<u>1,118.4</u>
<b>Accumulated amortisation</b>				
At 1 January 2018	39.7	508.6	-	548.3
Amortisation	1.0	98.1	-	99.1
Disposals and surrenders	-	(13.4)	-	(13.4)
At 31 December 2018	<u>40.7</u>	<u>593.3</u>	<u>-</u>	<u>634.0</u>
<b>Net book value</b>				
At 31 December 2018	<u>4.4</u>	<u>446.8</u>	<u>33.2</u>	<u>484.4</u>
At 31 December 2017	<u>5.5</u>	<u>466.1</u>	<u>33.2</u>	<u>504.8</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 12 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>

Software assets include the customer relationship management system for UK Home Energy. The net book value of these assets is £116m and the remaining useful economic life over which the asset will be amortised is 7 years.

#### 13 Investments

##### Investments classified as non-current

	Shares in Group undertakings (subsidiaries) £ m
Cost	
At 1 January 2017	59.8
Disposals <sup>(i)</sup>	(59.8)
At 31 December 2018	-
Provisions for impairment	
At 1 January 2017 and 31 December 2017	-
Net book values	
At 31 December 2018	-
At 31 December 2017	59.8

<sup>(i)</sup> On 22 October 2018 the Company sold its 100% shareholdings in Group undertakings to its parent company, GB Gas Holding Limited, for consideration equal to the net book value of the investments. This comprised investments in: Centrica Hive Limited<sup>(iii)</sup>, ECL Contracts Limited, ECL Investments Limited, Electricity Direct (UK) Limited and Hillserve Limited. The Company retains a £1 share in British Gas Energy Procurement, a 100% shareholding in this year and last.

<sup>(iii)</sup> Centrica Connected Home Limited was renamed to Centrica Hive Limited on 16 February 2018.

<sup>(iii)</sup> The Company also continues to hold a £100 investment in each of Finance Scotland CEPS Limited Partnership and Finance Scotland CPP Limited Partnership, both registered in Scotland.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 14 Trade and other receivables, and contract-related assets

	2018		2017	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade receivables	1,180.7	-	1,267.8	-
Provision for impairment of trade receivables	(482.9)	-	(534.0)	-
Net trade receivables	697.8	-	733.8	-
Amounts owed by Group undertakings	5,058.8	-	5,224.5	-
Finance lease receivables owed by Group undertakings	41.7	92.9	35.3	134.6
Accrued energy income	551.9	-	572.6	-
Prepayments	30.2	26.6	42.2	12.3
Other receivables	47.7	-	27.0	0.2
Assets recognised from the costs to obtain a contract with a customer	8.3	12.4	-	-
	<u>6,436.4</u>	<u>131.9</u>	<u>6,635.4</u>	<u>147.1</u>

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £3,009.0m (2017: £3,160.2m) from Centrica plc and £2,150.0m (2017: £2,150.0m) from Centrica Holdings Limited that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72% and 4.13% per annum during 2018 (2017: 3.66% and 3.86%). The other net amounts receivable from Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

#### Finance lease receivables

The minimum lease payment obligations that arise from these contracts stands as follows as at 31 December 2018:

	Minimum lease payments £ m	Finance charges £ m	Present value £ m
<b>2018</b>			
Within one year	62.6	(20.9)	41.7
In two to five years	109.0	(16.1)	92.9
	<u>171.6</u>	<u>(37.0)</u>	<u>134.6</u>
	<b>Minimum lease payments £ m</b>	<b>Finance charges £ m</b>	<b>Present value £ m</b>
<b>2017</b>			
Within one year	63.2	(27.9)	35.3
In two to five years	171.6	(37.0)	134.6
	<u>234.8</u>	<u>(64.9)</u>	<u>169.9</u>



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 14 Trade and other receivables, and contract-related assets (continued)

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

	2018 £ m	2017 £ m
Current assets	41.7	35.3
Non-current assets	92.9	134.6
	<u>134.6</u>	<u>169.9</u>

#### 15 Derivative financial instruments - Assets

	2018		2017	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Derivative financial instruments	<u>624.1</u>	<u>464.5</u>	<u>699.5</u>	<u>452.7</u>

Note 27 provides further detail on the fair value of financial instruments.

#### 16 Inventories

	2018 £ m	2017 £ m
Raw materials and consumables	11.6	10.3
Finished goods and goods for resale	<u>0.4</u>	<u>-</u>
	<u>12.0</u>	<u>10.3</u>

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

#### 17 Trade and other payables

	2018		2017	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade payables	138.3	-	178.9	-
Accrued expenses - Transportation	231.9	-	248.0	-
Accrued expenses - Other	585.1	25.0	683.5	21.6
Amounts owed to Group undertakings	1,267.6	-	1,329.7	-
Social security and other taxes	26.2	-	26.0	-
Other payables <sup>(i)</sup>	<u>505.5</u>	<u>-</u>	<u>484.6</u>	<u>-</u>
	<u>2,754.6</u>	<u>25.0</u>	<u>2,950.7</u>	<u>21.6</u>

<sup>(i)</sup> Other payables includes a liability for renewable obligation certificates of £450.3m (2017: £423.8m)

<sup>(ii)</sup> The amounts owed to Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed to Group undertakings is £770.1m (2017: £740.7m) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72% and 4.13% per annum during 2017 (2017: 3.66% and 3.86%). The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 18 Derivative financial instruments - liabilities

	2018		2017	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Derivative financial instruments	<u>643.6</u>	<u>469.9</u>	<u>709.0</u>	<u>457.9</u>

Note 27 provides further detail on the fair value of financial instruments.

#### 19 Provisions for other liabilities and charges

	Restructuring £ m	Onerous sales contracts £ m	Other provisions £ m	Total £ m
At 1 January 2018	16.4	2.4	29.1	47.9
Charged to the Income Statement	70.7	-	20.2	90.9
Unused provision reversed to the Income Statement	1.4	(1.7)	-	(0.3)
Provisions used	(67.5)	(0.4)	(15.8)	(83.7)
Increase (decrease) from transfers to Group undertakings	<u>(3.2)</u>	<u>-</u>	<u>(0.2)</u>	<u>(3.4)</u>
At 31 December 2018	<u>17.8</u>	<u>0.3</u>	<u>33.3</u>	<u>51.4</u>
Non-current liabilities	<u>3.0</u>	<u>-</u>	<u>14.0</u>	<u>17.0</u>
Current liabilities	<u>14.8</u>	<u>0.3</u>	<u>19.3</u>	<u>34.4</u>

##### Restructuring

The provision predominantly relates to costs reduction programmes. Utilisation is expected within one year, except for a provision for the additional costs of making good defects on products which is expected to be utilised within five years.

##### Onerous sales contracts

The onerous contract provision reflects the construction services business expecting to incur penalties for having exited sales contracts early, as a result of the decision to close the business. Utilisation is expected within one year.

##### Other provisions

The provision at 31 December 2018 includes £0.9m in relation to employer's national insurance charges expected to arise at exercise dates on employee share schemes, £15.8m in relation to smart metering costs, £14m in relation to a Capacity Market provision, £1.4m in relation to a construction costs dispute and £1.2m in relation to other minor provisions. Expected utilisation period is as follows: £19.3m within one year and £14m within one to five years.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 20 Borrowings

	2018 £ m	2017 £ m
<b>Non-current bank overdrafts, loans and borrowings</b>		
Finance lease liabilities	66.8	101.4
	<u>66.8</u>	<u>101.4</u>
<b>Current bank overdrafts, loans and borrowings</b>		
Bank overdrafts	16.7	33.2
Finance lease liabilities	34.6	32.3
	<u>51.3</u>	<u>65.5</u>

#### Bank overdrafts

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

#### Finance lease liabilities

The Company entered into a lease arrangement in respect of its long-term tolling contract with 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:

	2018 £ m	2017 £ m
Not later than 1 year	39.4	39.0
Later than 1 year and not later than 5 years	70.0	109.5
<b>Total gross payments</b>	<u>109.4</u>	<u>148.5</u>

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

	2018 £ m	2017 £ m
Not later than 1 year	34.6	32.3
Later than 1 year and not later than 5 years	66.8	101.4
<b>Carrying value of liability</b>	<u>101.4</u>	<u>133.7</u>

#### 21 Post-retirement 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 Group financial statements.

The CEPS, CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below in the Group financial statements as the 'Registered Pension Schemes'.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 21 Post-retirement benefits (continued)

##### 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 Group financial statements.

##### Reconciliation of scheme assets and liabilities

The amounts recognised in the Statement of Financial Position are as follows:

	Assets £ m	2018 Liabilities £ m	Total £ m	Assets £ m	2017 Liabilities £ m	Total £ m
1 January	3,005.1	(2,894.1)	111.0	2,818.6	(2,925.6)	(107.0)
<b>Items included in the Income Statement:</b>						
Current service cost	-	(23.7)	(23.7)	-	(29.2)	(29.2)
Past service credit	-	(7.8)	(7.8)	-	-	-
Loss on curtailment	-	(0.9)	(0.9)	-	(0.4)	(0.4)
Interest income/(expense)	80.8	(73.8)	7.0	83.3	(78.3)	5.0
<b>Other movements:</b>						
Re-measurement gains/(losses)	(459.9)	633.4	173.5	35.6	45.5	81.1
Employer contributions	26.0	-	26.0	175.1	-	175.1
Plan participants contributions	0.2	(0.2)	-	0.2	(0.2)	-
Benefits paid from schemes	(91.2)	91.2	-	(107.7)	107.7	-
Transfers from provisions for other liabilities and charges	-	(4.0)	(4.0)	-	(13.6)	(13.6)
31 December	<u>2,561.0</u>	<u>(2,279.9)</u>	<u>281.1</u>	<u>3,005.1</u>	<u>(2,894.1)</u>	<u>111.0</u>

Presented in the Statement of Financial Position as:

	2018 £ m	2017 £ m
Defined benefit pension assets	<u>281.1</u>	<u>111.0</u>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 21 Post-retirement benefits (continued)

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

	2018 £ m	2017 £ m
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	(459.9)	35.6
Experience (loss)/gain arising on the scheme liabilities	(4.7)	(14.9)
Changes in assumptions underlying the present value of the schemes' liabilities	638.1	60.4
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	<u>(421.3)</u>	<u>(502.4)</u>
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	<u>(247.8)</u>	<u>(421.3)</u>

##### Pension scheme contributions

Note 22 to the Group financial statements provides details of the triennial review based on the position at 31 March 2015 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements. Under IAS 19: 'Employee benefits (revised 2011)', the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £14.0 million of employer contributions during 2019 at an average rate of 23.8% of pensionable pay together with contributions via the salary sacrifice arrangement of £4.8m.

Although the Group has established a new funding arrangement in the year based on the position as at 31 March 2015, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

##### Pension scheme assets

The major categories of scheme assets are as follows:

	2018			2017		
	Quoted £ m	Unquoted £ m	Total £ m	Quoted £ m	Unquoted £ m	Total £ m
Equities	1,991.0	351.0	2,342.0	2,089.0	303.0	2,392.0
Corporate bonds	1,118.0	-	1,118.0	1,276.0	-	1,276.0
High-yield debt	595.0	1,360.0	1,955.0	280.0	1,450.0	1,730.0
Liability matching assets	1,581.0	994.0	2,575.0	1,663.0	952.0	2,615.0
Property	-	395.0	395.0	-	369.0	369.0
Cash pending investment	102.0	-	102.0	3.0	-	3.0
Asset-backed contribution assets	-	802.0	802.0	-	864.0	864.0
Group pension scheme assets <sup>(i)</sup>	<u>5,387.0</u>	<u>3,902.0</u>	<u>9,289.0</u>	<u>5,311.0</u>	<u>3,938.0</u>	<u>9,249.0</u>

<sup>(i)</sup> Total pension scheme assets for the UK pension schemes.

##### Defined contribution pension scheme

The total cost charged to the Income Statement of £21.5m (2017: £20.5m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 22 Capital and reserves

##### Share capital

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

	2018		2017	
	No. m	£ m	No. m	£ m
Ordinary shares of £1 each	800	800	800	800

##### Share premium

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

##### Cash flow hedge 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 the Statement of Financial Position as and when the hedged item affects the Income Statement or the Statement of Financial Position which is, for the most part, on receipt or payment of amounts denominated in foreign currencies.

##### Actuarial gains and losses reserve

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

##### 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 reporting date.

##### Share-based payments reserve

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

#### 23 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 £7.0m (2017: £6.1m) which is shown under the financial line item 'operating 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; from 2015 this scheme was replaced by the AIP and LTIP for Executive Directors and the 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 and matching shares. Further information on the operation of the DMSS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 90 to 110 of the Centrica plc 2018 Annual Report and Accounts.

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

##### Long Term Incentive Scheme

Awards under the LTIS are available to employees within senior management. From 2015 this scheme was replaced by the AIP and LTIP for Executive Directors and 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, total shareholder return (TSR) and non-financial KPIs. 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. Leaving prior to the vesting date will normally mean forfeiting rights. Further information on the operation of the LTIS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 90 to 110 of the Centrica plc 2018 Annual Report and Accounts.

##### Share Award Scheme

Allocation of shares in Centrica plc under the SAS are made to selected employees at senior and 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 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. Leaving prior to the vesting date will normally mean forfeiting rights.

##### On Track Incentive Plan

Awards under the OTIP are available to Senior Executives, senior and middle management. Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the unvested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on pages 90 to 110 of the Centrica plc 2018 Annual Report and Accounts.

##### Sharesave

All UK and Ireland employees of Centrica plc are entitled to participate in the HMRC-approved Sharesave. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for three days prior to invitation, which is three to four weeks prior to the grant date. Maximum contribution limits are set by legislation and the levels of participation allowed are within these limits and apply to all participants. Employees pay a monthly fixed amount into a savings account and may elect to save over three or five years. At the end of the savings period, employees have six months to exercise their options or withdraw the saved funds. Further information on the operation of the scheme can be found on pages 90 to 110 of the Centrica plc 2018 Annual Report and Accounts.

#### 24 Dividends paid and proposed

	2018 £ m	2017 £ m
<i>Declared and paid during the year</i>		
Final dividend of £Nil (2017 - £Nil) per ordinary share	-	-
Interim dividend of £0.625 (2017 - £0.283) per ordinary share	500	227
	<u>500</u>	<u>227</u>

On 19 December 2018 the Company paid an interim dividend of £500.0m (2017: £227.0m) to its immediate parent undertaking GB Gas Holdings Limited. The Directors do not recommend the payment of a final dividend (2017: £nil).

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 25 Operating leases

##### Leases as lessee

At 31 December the Company had total future minimum lease payments under non-cancellable operating leases for vehicles with the following maturities:

	2018 £ m	2017 £ m
Within one year	7.5	5.3
In two to five years	5.2	15.3
	<u>12.7</u>	<u>20.6</u>

Included within future minimum lease payments above are the following amounts due to British Gas Finance Limited: £5.4m (2017: £3.1m) within one year and £2.2m (2017: £12.9m) between two and five 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. 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, the Company paid £59.4m (2017: £63.3m) in relation to renewables contingent rentals. Payments under certain arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources are contingent upon actual production. The Company paid lease rentals and received lessor income of £nil (2017: £30.7m) in relation to operating lease tolling rentals, in 2018 this tolling arrangement was no longer in place.

#### 26 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 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 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 per annum (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.



## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

As at 31 December 2018, the Company has the following commitments, based on minimum contractual quantities (per contractual terms entered into), commodity purchase prices and foreign exchange rates as at the reporting date.

	2018	2017
	£m	£m
LNG capacity	555.9	601.7
Transportation capacity	126.1	132.6
Energy Company Obligation	9.7	6.7
Outsourcing of services	39.8	46.0
Smart meter arrangements with MAPs	100.5	144.6
Other commitments	18.6	16.5
	<u>850.6</u>	<u>948.1</u>

#### Other guarantees and indemnities

In connection with the Group's energy trading, transportation and upstream activities, certain 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.

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 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.

#### 27 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 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 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 '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 2018 (continued)

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

##### 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, known as hierarchy levels, 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 management's best estimate of fair value.

##### Financial instruments carried at fair value

31 December 2018	Fair value and carrying value £ m	Fair value hierarchy	
		Level 2 £ m	Level 3 £ m
Derivative financial assets - held for trading under IAS 39			
Energy derivatives	1,057.4	519.3	538.1
Foreign exchange derivatives	31.2	31.2	-
<b>Total financial assets at fair value</b>	<b>1,088.6</b>	<b>550.5</b>	<b>538.1</b>
Derivative financial liabilities - held for trading under IAS 39			
Energy derivatives	(1,081.6)	(543.5)	(538.1)
Foreign exchange derivatives	(31.2)	(31.2)	-
Derivative financial liabilities - in hedge accounting relationships			
Derivative financial liabilities - in hedge accounting relationships:	(0.7)	(0.7)	-
<b>Total financial liabilities at fair value</b>	<b>(1,113.5)</b>	<b>(575.4)</b>	<b>(538.1)</b>
<b>Total financial instruments at fair value</b>	<b>(24.9)</b>	<b>(24.9)</b>	<b>-</b>

## British Gas Trading Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

31 December 2017	Fair value and carrying value £ m	Level 2 £ m	Level 3 £ m
Derivative financial assets - held for trading under IAS 39			
Energy derivatives	1,121.2	595.1	526.1
Foreign exchange derivatives	30.1	30.1	-
Derivative financial assets - in hedge accounting relationships			
Foreign exchange derivatives	0.9	0.9	-
<b>Total financial assets at fair value</b>	<b>1,152.2</b>	<b>626.1</b>	<b>526.1</b>
Derivative financial liabilities - held for trading under IAS39			
Energy derivatives	(1,136.8)	(610.7)	(526.1)
Foreign exchange derivatives	(30.1)	(30.1)	-
<b>Total financial liabilities at fair value</b>	<b>(1,166.9)</b>	<b>(640.8)</b>	<b>(526.1)</b>
<b>Total financial instruments at fair value</b>	<b>(14.7)</b>	<b>(14.7)</b>	<b>-</b>

<sup>(a)</sup> Derivative financial assets include amounts due from Group undertakings of 482.3m (2017: £458.6m). Derivative financial liabilities include amounts due to Group undertakings of £604.6m (2017: £692.8m).

#### 28 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:

**Nuclear associates**  
EDF Energy Nuclear Generation Limited  
Lake Acquisitions Limited

These transactions and associated balances are as follows:

	2018 Nuclear Associates £ m	2017 Nuclear Associates £ m
Purchase of power	(476.0)	(526.9)
Amounts owed to related parties	(41.8)	(40.2)

<sup>(a)</sup> No provision for bad or doubtful debts owed by related parties was required (2017: £nil).

## **British Gas Trading Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **29 Parent and 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 financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from [www.centrica.com](http://www.centrica.com). The financial statements can also be obtained from the following address:

Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD  
England and Wales