Registration number: 03078711

British Gas Trading Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

British Gas Trading Limited

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British Gas Trading Limited

Company Information

Directors	R Roy
	G C McKenna
	C A N O'Kelly
	A J Kennedy
Company secretary	Centrica Secretaries Limited
Registered office	Millstream Maidenhead Road Windsor Berkshire SL4 5GD United Kingdom
Auditor	Deloitte LLP London EC4A 3HQ United Kingdom

Strategic Report for the Year Ended 31 December 2022

The Directors present their Strategic Report for British Gas Trading Limited (the 'Company') for the year ended 31 December 2022.

Principal activity
The principal activities of the Company are to buy, and subsequently sell, gas and power to its residential and business customers. It procures the commodities required for its customers from British Gas Limited (BGL), under a long-term contractual supply arrangement. BGL procures natural gas and power, via back-to-back arrangements for the Company, from the market and through bilateral contracts.

Section 172(1) Statement
In promoting the success of the Company, the Directors must consider the interests of stakeholders and the other matters required by section 172(1) (a) to (f) of the Companies Act, 2006.

This Section 172(1) Statement describes the relevant items for the Company. The Company is a subsidiary of Centrica plc and its activities support the wider strategy of the Centrica Group. Where appropriate, for example, in matters of long-term strategy, decision-making is aligned with that of the ultimate parent company Board, ensuring that stakeholders of the Company have been rigorously considered.

General confirmation of Directors' duties
Directors are fully aware of and understand their statutory duties under the Companies Act, 2006. The Board has a clear framework for determining the matters within its remit. Day to day authority is delegated to executives and the Directors engage with management in setting, approving and overseeing execution of the business strategy and related policies, leveraging group frameworks and policies. The executives consider the Company's activities, such as reviewing financial and operational performance, business strategy, key risks, stakeholder-related matters, governance, and legal and regulatory compliance, and make decisions. Section 172(1) of the Act provides that each Director must ensure that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to section 172(1) (a) to (f) as described below.

(a) The likely consequences of any decision in the long-term
The Directors understand the Company's business and the evolving environment in which it operates, including the challenges of a highly competitive marketplace, regulatory intervention and climate change. We are active in engaging with and influencing government, political parties and the regulator, Ofgem, to ensure a more sustainable market. Climate change is increasingly important to investors and customers and the Group has made a series of commitments as part of its 'People and Planet Plan'. Further information on this including how the Group is engaging with stakeholders, helping customers to be net zero and reducing its own emissions to reach net zero can be found on pages 12 to 13 and 37 to 38 of the Group's Annual Report and Accounts 2022. The Directors recognise how our operations are viewed by different stakeholders and that some decisions they take may not align all stakeholder interests.

The Directors took decisions during 2022 that they believed would best promote the Company's long-term success for the benefit of its stakeholders. For instance, British Gas have taken a responsible approach by safeguarding customers deposits and stepped in to help 158,000 customers who were left without a supplier from Together Energy, through Ofgem's Supplier of Last Resort Process.

(b) The interests of the company's employees
The Directors recognise that employees are fundamental to the future growth and success of the Company. That success depends on looking after our employees. In 2022 we provided two significant cost of living payments to colleagues to help them to manage rising household costs. We have introduced a number of other financial and non-financial initiatives for our colleagues including an energy allowance for all colleagues who are British Gas customers and reduced priced meals at all our sites. We have launched a number of new programmes aimed at supporting the mental health of our colleagues, particularly those that are providing vital support to our customers every day. In addition, we have invested £25m in customer service with the recruitment of 700 additional UK-based agents to allow us to manage the increase in demand from our customers.

(c) The need to foster the company's business relationships with suppliers, customers and others
The Directors recognise the benefits of engaging with a broad range of stakeholders and developing and delivering our strategy depends on building and maintaining constructive relationships across them.

With higher wholesale commodity prices resulting in significantly higher customer bills, we saw customer contact increase by almost a third compared to 2021, with greater customer focus on the level of their bill and direct debit payments. The Board's actions during 2022 have ensured that levels of customer debt were managed carefully to ensure that we were as supportive of our customers as we could possibly be. This included working to provide vulnerable customers with the support they need with £50 million in donations, including through the independent British Gas Energy Trust charity and the British Gas Energy Support Fund. Additionally, the Company made a £1m donation to the Disasters Emergency Committee Ukraine fund and took the decision in January 2020 to return £27 million received from the UK Government under the furlough scheme.

The Directors appreciate the importance for business strategy of the need to increase flexibility in our energy customer billing systems. British Gas now has more than 2 million customers on our new cloud-based IT platform, which should help improve customer service and allow us to use an integrated system which will allow households to dynamically manage their energy use and earn new revenue streams by what is known as Demand Side Response (DSR).

(d) The impact of the company's operations on the community and the environment
The Directors appreciate that collaboration with charities and community groups helps to create stronger communities and provide insights that enable the Board to understand the Group's impact on the community and environment, and the consequences of its decisions in the long-term. Further information about how the Centrica Group engages with communities and NGOs can be found on pages 12-13, 40, 42 and pages 68-71 of the Group's Annual Report and Accounts 2022.

(e) The desirability of the company maintaining a reputation for high standards of business conduct
The Board adheres to Centrica Group's "Our Code" code of conduct which all Centrica Group employees are subject to setting out the high standards and behaviours we expect from those that work for us or with us.

(f) The need to act fairly as between members of the company
After weighing up all relevant factors, the Directors consider which course of action best promotes the long-term success of the Company, taking into consideration the impact on stakeholders. In doing so, the Directors act fairly as between the Company's members. However, the Directors are not required to balance the Company's interests with those of other stakeholders, and this can sometimes mean that certain stakeholder interests may not be fully aligned.

Culture
The Company's culture is set by the Group and embedded in all we do. Further information on our culture can be found within the Strategic Report section of the Group's Annual Report and Accounts 2022.

Carbon emissions and energy usage
Carbon emissions and energy usage are not disclosed at a Company level due to exemptions detailed in Para 20A of Schedule 7 of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Carbon emissions and energy usage reporting for the Group is included in the 'People and Planet' section on pages 39-43 of Centrica plc's Annual Report and Accounts 2022. Specific metrics and targets are disclosed in the 'Task Force on Climate-related Financial Disclosures' section on page 53 of the Group's Annual Report and Accounts 2022.

Ukraine conflict
The Company is a subsidiary of the Centrica Group, and as such is impacted by the energy crisis and Ukraine conflict. The energy markets remain very volatile, but the Centrica Group continues to maintain a hedging strategy aligned to the Default Tariff price cap or to individual customer contractual requirements to minimise the exposure to market prices. The Company does not own any businesses or operate in Russia or Ukraine and so has no direct impacts from those two countries. Furthermore, the Company has no investments in Russian entities or bonds. The Company has not experiences any direct material impacts but will keep monitoring the position.

Review of the business
The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosure Framework ('FRS 101').

The financial position of the Company is presented in the Statement of Financial Position on page 17. Total equity as at 31 December 2022 was £2,151.1m (2021: £1,961.5m). The profit for the financial year ended 31 December 2022 was £283.9m (2021: £121.5m profit).

British Gas residential customers numbers increased by 256,000, or 4%, over 2022. This included a net increase of 158,000 customers who joined us through Ofgem's Supplier of Last Resort Process from Together Energy, while we also saw organic net growth of 98,000 in the year, against a backdrop of low levels of market switching. We also delivered a 25,000, or 5%, increase in the number of small business customers we serve, to 480,000, including organic net growth of 18,000.

Russia's invasion of Ukraine led to higher wholesale commodity prices resulting in significantly higher customer bills, we saw customer contact increase by almost a third compared to 2021. This led to a higher number of complaints, although almost 70% were resolved within a day, while Energy Touchpoint NPS improved to +13. We remain focused on ensuring we are able to handle an increased level of customer contact at this challenging time for many customers, and have now completed the recruitment of an additional 700 UK-based contact centre colleagues.

The cost of living crisis continued through 2022 and inflation rose above 10% in H2 2022. As a result, the company is exposed to elevated levels of bad debt as customers struggle to pay their bills. To help customers navigate through difficult times, we invested in customer care and set up a £50 million support fund for vulnerable customers. Following the decision by Ofgem to suspend prepayment warrant activity in 2023, we have called on Government, industry, and the regulator to come together to agree a long-term plan to address the issue of affordability and the needs of vulnerable customers and, ultimately, create an energy market that is sustainable.

In Centrica Business Solutions energy supply, which consists of medium-sized entities and Commercial and Industrial (C&I) customers: The total amount of energy supplied in the period was flat at 22.3TWh compared to 2021, with the easing of COVID-19 restrictions and underlying growth in medium sized business volumes being offset by the impacts of warmer weather and lower underlying customer demand in response to higher prices and the economic climate. Customer complaints increased, reflecting increased customer concern around higher energy prices, however Touchpoint NPS increased to +31 reflecting investments to improve overall customer service.

Principal risks and uncertainties

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 risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 28-33 of the Group's Annual Report and Accounts 2022, which does not form part of this report.

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, including the ability for customers to pay debts as they fall due given wider macroeconomic conditions.

Changes in government and regulatory policy, specifically relating to the British Gas Energy markets, could further erode profit margins. This could occur through changes in price caps, changes made to cost recovery processes, and from additional obligations including the introduction of capital adequacy frameworks. All of these are currently under consultation or have been proposed, with the scale and magnitude of change heightening compliance risks.

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 works to provide choice for consumers, whilst supporting sustainable and responsible practices.

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 net assets and profit for the year.

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy including on customer numbers, net promoter scores and complaints. The development, performance and position of the Group, which includes the Company, are disclosed on pages 26-27 of the Group's Annual Report and Accounts 2022, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 6.

Future developments

In January 2023, following a media article which suggested failures in processes and policies by a third-party contractor, British Gas suspended all warrant activity and committed to completing a thorough investigation. The investigation into prepayment meter (PPM) fitted under court warrant, was overseen by independent consultants Promontory Financial Services. In May 2023 it revealed there were no systemic issues with prepayment meters fitted under warrant. However, it did find a limited number of cases where lessons need to be learned.

Reflecting the importance and sensitivity of the activity the company made the decision that any future fitting of PPMs under warrant will be brought in-house to ensure greater oversight. British Gas unveiled plans for a series of improvements to the way it deals with the fitting of prepayment meters under warrant. The actions included introducing the cheapest PPM tariffs of any supplier in the country to be aligned with the cost of energy for direct debit customers, commitment to Ofgem's voluntary Code of Practice on prepayment installations under warrant including the use of body cameras by employees carrying out this work when operating in the homes of customers, not carrying out involuntary installations for the highest risk customers, including over 85s and re-assessing cases once a customer has repaid debts owed and changing from PPM to credit.

Approved by the Board on ......27......... September 2023 and signed on its behalf by:

....

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
United Kingdom

Directors' Report for the Year Ended 31 December 2022

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

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:

R Roy

M J Bateman (resigned 18 February 2022)

G C McKenna

C L McLeod (resigned 4 November 2022)

C A N O'Kelly

The following director was appointed after the year end:

A J Kennedy (appointed 23 January 2023)

Results and dividends
The results of the Company are set out on page 15. The profit for the financial year ended 31 December 2022 is £283.9m (2021: £121.5m).

The Company did not pay an interim dividend during the year (2021: £2,150.0m) and the Directors do not recommend the payment of a final dividend (2021: £nil).

The financial position of the Company is presented in the Statement of Financial Position on pages 17 and 18. Total equity at 31 December 2022 was £2,151.1m (2021: £1,961.5m).

Charitable donations
During the year the Company made contributions of £23.1m (2021: £8.3m) to the independent charity, the British Gas Energy Trust. Within this contribution, £5.8m (2021: £6.0m) was delivered as part of the Warm Home Discount Obligation. Additionally, the Company made a £1.0m donation to the Disasters and Emergency Commission (DEC) Ukraine Appeal

Corporate governance
The Directors recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. Sound corporate governance enables clear and consistent delegation of authority from the Board to senior management and beyond in order to promote robust, informed and transparent decision-making. It also promotes effective stewardship to ensure the delivery of strategic objectives and sustainable success. It is the Board's responsibility to set the tone for the organisation including the right culture, values and behaviours that are intended to protect and promote the long-term success of the business.

The Company is part of the Centrica plc Group. Centrica plc applies the UK Corporate Governance Code (UK Code). Whilst the Company does not apply any specific code, it is subject to the controls and governance framework of Centrica plc. These controls are robust and provide an effective governance framework that applies to the Company, setting out corporate governance principles which support the execution of our strategy and remains consistent with our Values.

Financial Risk Management

Objectives and policies
The directors monitor financial performance and manage financial risks to enable the Company to achieve long-term shareholder value growth. 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 the Group risk management framework. An energy management team manages energy market price and volumetric risk.

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 and volumes, in particular for gas and electricity which are influenced by external factors including weather. 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 BGL 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 maintain a hedging strategy aligned to the price cap pricing in methodology or to individual customer contractual requirements to match to the underlying profiles of our customer energy requirements. This policy is executed by BGL and reflected in the price the Company pays BGL for the commodity under the procurement contract.

Certain procurement and sales contracts constitute derivative financial instruments. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery. Refer to note 26 for details.

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

Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly. Liquidity risk is managed through funding arrangements with Group undertakings.

Employees
Safety remains a priority of the Group and the focus in 2022 was to reinforce the strong safety culture and advanced controls and monitoring. Alongside physical health, we were mindful of the impact that the cost of living crisis may have on colleague wellbeing. So we provided two cost of living payments to colleagues and ran campaigns that talked about the importance of being open about mental health whilst encouraging use of our suite of support which includes a company-funded benefit healthcare plan for all, a wellbeing app, and our 100-strong network of mental health first aider. There are other health and safety campaigns and initiatives designed to keep our people and our customers safe, which continues to be a priority in 2023.

The Company's all-employee share schemes are a long established and successful part of our total reward package, encouraging the involvement of UK employees in the Company's performance through employee share ownership. We offer a tax-advantaged Share Incentive Plan (SIP), with good levels of take-up across the Company. In 2022 all eligible employees globally were awarded a Profit Share award under the SIP.

The Company is committed to and has an active equal opportunities policy which includes, but is not limited to, recruitment and selection, training, career development, performance reviews and promotion to retirement. Our culture is to create an environment free from discrimination, harassment and victimisation. Our policies are in place to ensure everyone receives equal treatment regardless of gender, identity, race, ethnic or national origin, disability, age, marital status, sexual orientation or religion or any other characteristic protected by applicable laws.

We have created channels for colleagues to voice concerns confidentially, through a Speak Up support service, a confidential and anonymous helpline operated by an independent company. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

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

Employee engagement

The Company remains committed to employee involvement throughout the business. It seeks to create an environment where each employee can reach their full potential and be at their best, and we can retain and develop the best talent to continue to deliver for our stakeholders. During 2021, over 100 engagement surveys including company-wide 'Our Voice' quarterly surveys were conducted to understand and respond to colleague 'pain points'.

Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings with senior management, emails, information screens, broadcasts at key points in the year and a Group-wide intranet. The Company seeks to create an environment in which employees are fully engaged with business objectives. Further information about the survey and the improvement in colleague engagement can be found on pages 12-13, 26-27, 37-43 and 56-57 of the Group's Annual Report and Accounts 2022.

Going concern

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Directors have updated their Group going concern assessment as at 30 June 2023. The going concern assessment has included stress-testing cash forecasts for different scenarios including reasonably possible increases/ decreases in commodity prices and evaluating risk scenarios for reasonably possible combinations of risks, the largest of which is the increased margin outflows in the trading and upstream businesses. Risks considered also include the impact of significant adverse weather events, increased bad debt charges due to the cost of living crisis, the risk of financial loss due to counterparty default and production falls in the Group's upstream business. The Group has established enhanced processes in the trading business and in respect of upstream to plan for and manage possible increases in margin cash requirements. The Group undrawn committed facilities as at 30 June 2023 were £3.8 billion in addition to Group unrestricted cash and cash equivalents of £5.9 billion. The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that there are no material uncertainties relating to going concern. As a result, the Group continues to adopt the going concern basis of accounting in preparing the financial statements.

On the basis of the enquiries made, and the fact that Centrica plc, the ultimate parent company, has confirmed it will continue to support the Company, the Directors have concluded that the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

Future developments

Future developments are discussed in the Strategic Report on page 5.

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 and continues to remain in force. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2021 and continue to remain in force.

Non-adjusting events after the financial year

In January 2023, following a media article which suggested failures in processes and policies by a third-party contractor, British Gas suspended all warrant activity and committed to completing a thorough investigation. The investigation into prepayment meter (PPM) fitted under court warrant, was overseen by independent consultants Promontory Financial Services. In May 2023 it revealed there were no systemic issues with prepayment meters fitted under warrant. However, it did find a limited number of cases where lessons need to be learned.

Reflecting the importance and sensitivity of the activity the company made the decision that any future fitting of PPMs under warrant will be brought in-house to ensure greater oversight. British Gas unveiled plans for a series of improvements to the way it deals with the fitting of prepayment meters under warrant. The actions included commitment to Ofgem's voluntary Code of Practice on prepayment installations. Prepayment warrant activity remains suspended and will resume no earlier than October 2023.

Finance Scotland CPP Limited Partnership, in which the Company held a £100 investment (representing a 0.004% interest), was dissolved on 8 May 2023.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website which, in the absence of a website for British Gas Trading Limited, we refer to the Centrica plc Group website for this responsibility. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all 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. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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 September.................. 2023 and signed on its behalf by:

....

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
United Kingdom

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

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of British Gas Trading Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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 Financial Reporting Standard 101 'Reduced Disclosure Framework' (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 Financial Reporting Council's (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.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- consideration of the confirmation by Centrica plc that it will continue to support the Company for at least one year after the financial statements were authorised for issue; and
- consideration of the ability of Centrica plc to continue to support the Company based on the financing facilities, and headroom thereon, available throughout the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, 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.

Auditor's 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 auditor's 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the documentation of the policies and procedures relating to fraud and compliance with laws and regulations that has been established by the Company's ultimate parent. We also enquired of management and directors about their own identification and assessment of the risks of irregularities including those that are specific to the Company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as IT, tax, pensions, financial instruments and valuation regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address these are described below:

- The valuation of credit losses on financial assets ("bad debt provisions") given the inherent judgement in the current economic environment: our audit approach for bad debt provisions involved a combination of data analytics, substantive audit procedures and tests of internal control;
- The accuracy and completeness of ENSEK revenue: our audit approach for Ensek revenue involved the combination of understanding and testing relevant controls, evaluating the accuracy of amounts recorded as revenue, and challenging the methodology used to calculate the ENSEK unbilled revenue; and

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

- The valuation of complex derivatives given the inherent risk of bias in the valuations calculated: our audit approach for the valuation of complex derivatives involved the combination of inspection, observation, recalculation, of management work and the use of complex pricing specialist to assess and challenge the assumptions, methodology and the accuracy of management inputs used in the valuation of derivatives.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

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.

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 auditor's 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.

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

JBoardman

....
Jane Boardman FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date 28th Sept. 2023

British Gas Trading Limited

Income Statement for the Year Ended 31 December 2022

	Note	2022 £ m	2021 £ m
Revenue	4	16,032.1	9,032.0
Cost of sales	5	(14,653.2)	(8,350.1)
Gross profit		1,378.9	681.9
Operating costs	5	(1,148.1)	(820.1)
Exceptional items - restructuring (costs)/credit	7	(0.9)	10.5
Operating profit/(loss)		229.9	(127.7)
Finance income	8	70.5	301.0
Finance costs	8	(11.1)	(50.9)
Net finance income		59.4	250.1
Profit before taxation		289.3	122.4
Tax charge on profit/loss	11	(5.4)	(0.9)
Profit for the year		283.9	121.5

The above results were derived from continuing operations.

The notes on pages 20 to 50 form an integral part of these financial statements.

British Gas Trading Limited

Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £ m	2021 £ m
Profit for the year		283.9	121.5
Items that will not be reclassified to the Income Statement			
Net actuarial (losses)/gains on defined benefit pension schemes	21	(116.0)	71.6
Taxation on net actuarial gains/(losses) on defined benefit pension schemes	11	22.1	(13.7)
Current tax charge on defined benefit pension schemes	11	3.6	0.3
Deferred tax charge on defined benefit pension schemes	11	(3.6)	(0.3)
Change in tax rate on defined benefit pension schemes	11	5.8	(12.9)
		(88.1)	45.0
Other comprehensive (expense)/income		(88.1)	45.0
Total comprehensive income for the year		195.8	166.5

The notes on pages 20 to 50 form an integral part of these financial statements.

British Gas Trading Limited

Statement of Financial Position as at 31 December 2022

	Note	2022 £ m	2021 £ m
Non-current assets			
Property, plant and equipment	12	5.0	7.3
Intangible assets	13	211.8	289.9
Trade and other receivables	15	90.2	193.4
Retirement benefit assets	21	124.7	213.7
Derivative financial instruments	16	2,175.8	1,590.9
		2,607.5	2,295.2
Current assets			
Trade and other receivables	15	6,200.4	4,922.0
Inventories	17	9.0	5.6
Derivative financial instruments	16	4,992.4	7,393.5
Current tax assets		21.3	152.9
Cash and cash equivalents		472.8	3.1
		11,695.9	12,477.1
Total assets		14,303.4	14,772.3
Current liabilities			
Trade and other payables	19	(4,673.9)	(3,453.8)
Derivative financial instruments	26	(4,920.1)	(7,617.3)
Provisions for other liabilities and charges	20	(177.8)	(11.8)
Borrowings	18	(52.9)	(14.9)
		(9,824.7)	(11,097.8)
Net current assets		1,871.2	1,379.3
Total assets less current liabilities		4,478.7	3,674.5
Non-current liabilities			
Deferred tax liabilities	11	(26.3)	(56.9)
Trade and other payables	19	(21.7)	(22.9)
Derivative financial instruments	26	(2,208.9)	(1,630.2)
Provisions for other liabilities and charges	20	(70.7)	(3.0)
		(2,327.6)	(1,713.0)
Total liabilities		(12,152.3)	(12,810.8)
Net assets		2,151.1	1,961.5
Equity			
Share capital	22	800.0	800.0
Share premium	22	447.2	447.2
Retained earnings	22	1,286.6	1,002.7
Share-based payments reserve	22	73.0	79.2
Actuarial gains and losses reserve	22	(455.7)	(367.6)
Total equity		2,151.1	1,961.5

The notes on pages 20 to 50 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2022 (continued)

The financial statements on pages 15 to 49 were approved and authorised for issue by the Board of Directors on ....27 September................ 2023 and signed on its behalf by:

AKennedy
....
A J Kennedy
Director

Company number 03078711

British Gas Trading Limited

Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ m	Share premium £ m	Share based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2022	800.0	447.2	79.2	(367.6)	1,002.7	1,961.5
Profit for the year	-	-	-	-	283.9	283.9
Other comprehensive expense	-	-	-	(88.1)	-	(88.1)
Total comprehensive income/(expense)	-	-	-	(88.1)	283.9	195.8
Exercise of awards	-	-	(9.3)	-	-	(9.3)
Value of shares provided	-	-	1.6	-	-	1.6
Taxation on share options	-	-	1.5	-	-	1.5
At 31 December 2022	800.0	447.2	73.0	(455.7)	1,286.6	2,151.1

	Share capital £ m	Share premium £ m	Share based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2021	800.0	447.2	83.2	(412.6)	881.2	1,799.0
Profit for the year	-	-	-	-	121.5	121.5
Other comprehensive income	-	-	-	45.0	-	45.0
Total comprehensive income	-	-	-	45.0	121.5	166.5
Exercise of awards	-	-	(7.1)	-	-	(7.1)
Value of shares provided	-	-	2.4	-	-	2.4
Taxation on share options	-	-	0.7	-	-	0.7
At 31 December 2021	800.0	447.2	79.2	(367.6)	1,002.7	1,961.5

The notes on pages 20 to 50 form an integral part of these financial statements.

1 General information

British Gas Trading Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act, 2006 and is registered in England and Wales.

The address of its registered office and principal place of business is:
Millstream
Maidenhead Road
Windsor
Berkshire
United Kingdom
SL4 5GD

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 5.

2 Accounting policies

Basis of preparation
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 UK adopted International Financial Reporting Standards ('Adopted IFRSs'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company financial statements are presented in pounds sterling which is the functional currency of the Company.

Changes in accounting policy
From 1 January 2022, the following standards and amendments are effective in the Company's Financial Statements:

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', costs of fulfilling a contract; and
- Amendments to IAS 16: 'Property, Plant and Equipment', sale proceeds before intended use; and
- Annual improvements to IFRS 2018-2020.

None of these changes or amendments had any material impact on the Company's financial statements.

Summary of disclosure exemptions
In these financial statements, as a qualifying entity the Company has applied the exemptions available under FRS 101 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.

As the consolidated financial statements of the Centrica plc group (the 'Group'), which are available from its registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

2 Accounting policies (continued)

- certain disclosures required by IAS 36 'Impairment of Assets' in respect of the impairment of goodwill and indefinite life intangible assets;
- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided.

Measurement convention

The financial statements have been prepared on the historical cost basis except for: derivative financial instruments 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.

Going concern

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Directors have updated their Group going concern assessment as at 30 June 2023. The going concern assessment has included stress-testing cash forecasts for different scenarios including reasonably possible increases/ decreases in commodity prices and evaluating risk scenarios for reasonably possible combinations of risks, the largest of which is the increased margin outflows in the trading and upstream businesses. Risks considered also include the impact of significant adverse weather events, increased bad debt charges due to the cost of living crisis, the risk of financial loss due to counterparty default and production falls in the Group's upstream business. The Group has established enhanced processes in the trading business and in respect of upstream to plan for and manage possible increases in margin cash requirements. The Group undrawn committed facilities as at 30 June 2023 were £3.8 billion in addition to Group unrestricted cash and cash equivalents of £5.9 billion. The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that there are no material uncertainties relating to going concern. As a result, the Group continues to adopt the going concern basis of accounting in preparing the financial statements.

On the basis of the enquiries made, and the fact that Centrica plc, the ultimate parent company, has confirmed it will continue to support the Company, the Directors have concluded that the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

Exemption from preparing group accounts

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling company, Centrica plc.

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.

2 Accounting policies (continued)

Revenue recognition

The Company supplies gas and electricity to residential and business customers in the UK. The 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, although some fixed term contracts may have a termination fee. 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 and 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 and bought-in materials and services.

Finance costs

Interest expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a borrowing rate representative of the weighted average borrowing rate is used. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

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.

Finance income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Employee share schemes

The Centrica plc group, to which the Company belongs, operates a number of employee share schemes, detailed in the Remuneration Report on pages 84-103 and in note S2 to the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on the Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

Dividend income

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

2 Accounting policies (continued)

Financing costs
Financing 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. Financing 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. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Foreign currencies
Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the Company at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated 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 (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax 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.

Business combinations, goodwill and 'internal re-organisations'
The acquisition of assets that constitute a business is accounted for using the acquisition method (at the point the Company gains control over a business as defined by IFRS 3 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date. Goodwill arising on a business combination represents the excess of the consideration transferred and the acquisition date fair value of any previously held interest in the acquiree over the Company's interest in the fair value of the identifiable net assets acquired.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Certain subsequent changes to the amount within 12 months are treated as an adjustment to the cost of the acquisition.

2 Accounting policies (continued)

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs of disposal.

An internal reorganisation or a Group reconstruction is not accounted for as a business combination as there is no change in the ultimate controlling party over the underlying business and this type of transaction is outside the scope of IFRS 3. Consequently, a Group reconstruction is accounted for using 'merger accounting' principles so that the entity to which the net assets are transferred (the 'transferee') records the assets and liabilities acquired at the carrying values in the accounts of the transferor. There is no fair value exercise and purchase price allocation performed. Any difference between the net assets transferred and the consideration paid (if any) is accounted for as a transaction with owners acting in their owners' capacity, as an equity transaction.

Goodwill is not subject to amortisation after the transition to FRS 101 but is tested for impairment.

On disposal of a business, any amount of goodwill attributed to that business is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, 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.

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

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the Cash Generating Unit (CGU) level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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 BGL 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

Intangible assets subject to amortisation are provided so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	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.

2 Accounting policies (continued)

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
The depreciation periods for the principal categories of assets are as follows:

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

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 accounted for at cost less, where appropriate, provisions for impairment.

Inventories
Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items.

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 purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced retail sales contract and the lowest priced 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 using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised 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.

2 Accounting policies (continued)

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, and intangible assets that have indefinite useful lives or that are not yet available for use, 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 profit or loss. 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.

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.

- Trade and other receivables
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 less an allowance for expected credit losses.

- Trade and other payables
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.

- 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.

2 Accounting policies (continued)

- 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.

- 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, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

- 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.

Government grants

Government grants are transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government assistance is designed to provide an economic benefit that is specific to an entity qualifying under certain criteria. The Group recognises government grants only when there is reasonable assurance that the Group will comply with the conditions attached to them and the grant will be received. Government grants are recognised in profit and loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to assets are deducted from the carrying amount of the asset.

In 2021 and 2022 the Company recognised a SoLR receivable in relation to amounts recoverable under the Last Resort Supplier Payment mechanism administered by Ofgem, a government body, which is detailed in note 15. This process allows suppliers, appointed as Supplier of Last Resort, to recover costs reasonably incurred in supplying affected customers. The receivable recognised reflects amounts incurred primarily on commodity costs up to the reporting date which are recoverable under the LRSP claim. The associated credit has been recognised in cost of sales and operating costs.

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

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical accounting judgements in applying the Company's accounting policies

The following are critical accounting judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Metering contracts

As part of the smart meter roll-out, the Company has several meter rental arrangements with third parties. The Company has concluded that these arrangements are not leases under IFRS 16, on the basis that the asset has a predetermined use and the Company neither has the right to operate the asset, nor was involved in its design.

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

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 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.

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 2022 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.

Industry reconciliation procedures - 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.

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 ended in 2015 and 2018 respectively, with ECO phase 3 ending on the 31st March 2022 British Gas was confirmed as having completed all obligations under the ECO phase 3 scheme by Ofgem during the second half of 2022.

The ECO phase 4 scheme runs from April 2023 until March 2026 and is extended to include the Great British Insulation Scheme (GBIS). The scheme focusses on supporting low-income, vulnerable and fuel poor households with insulation and other heating installation measures.

Although the ECO 4 programme includes certain sub-obligations, there are no interim targets and, consistent with previous years, the Company continued to judge that it was not legally obligated by the order until delivery date. Accordingly, the costs of delivery were recognised as incurred, when cash had been spent or unilateral commitments made, resulting in obligations that could not be avoided.

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 Limited ('BGL'), 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 BGL. CEML and BGL 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 IFRS 9 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 IFRS 9 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 IFRS 9, 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 BGL in which BGL agreed to source commodities as requested by BGTL, the price for which is determined by the back-to-back contracts entered into by BGL. 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. BGL 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 2022 of the ultimate controlling party, Centrica plc, on pages 28 to 33 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.

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.

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

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 provided 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 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. The impact on billed receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage is £20.0m.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2022 £ m	2021 £ m
Energy supply to residential customers	11,902.9	6,759.3
Energy supply to business customers [(i)]	4,129.2	2,272.7
	16,032.1	9,032.0

All revenue arose from activities in the United Kingdom.

[(i)] Revenue from energy supply to business customers contains unrealised mark to market gains of £97.9m (2021: £226.7m losses)

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 in note 2.

5 Analysis of costs by nature

	2022 Cost of sales £ m	2022 Operating costs £ m	2022 Total costs £ m	2021 Cost of sales £ m	2021 Operating costs £ m	2021 Total costs £ m
Transportation, distribution and metering costs	(3,603.3)	-	(3,603.3)	(2,925.4)	-	(2,925.4)
Commodity costs excluding environmental costs	(7,924.9)	-	(7,924.9)	(3,953.4)	-	(3,953.4)
Depreciation, amortisation, impairment and write-downs	-	(98.1)	(98.1)	-	(116.9)	(116.9)
Employee costs	(77.0)	(203.3)	(280.3)	(81.7)	(191.6)	(273.3)
Impairment of trade receivables	-	(330.6)	(330.6)	-	(103.0)	(103.0)
Environmental and other costs	(3,048.0)	(516.1)	(3,564.1)	(1,389.6)	(408.6)	(1,798.2)
Total costs by nature	(14,653.2)	(1,148.1)	(15,801.3)	(8,350.1)	(820.1)	(9,170.2)

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 ('BGTL') business regardless of whether they have a contract of employment with BGTL 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 BGTL business.

The aggregate employee costs were as follows:

	2022 £ m	2021 £ m
Wages and salaries	(201.1)	(213.7)
Social security costs	(22.7)	(22.9)
Pension and other post-employment benefits	(28.3)	(34.5)
Share-based payment expenses	(2.2)	(2.2)
Repayment of Coronavirus government support programmes	(26.0)	-
	(280.3)	(273.3)

The average monthly number of persons employed by the Company during the year was 6,086 (2021 6,052). 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/(loss) for the reporting year:

	2022 £ m	2021 £ m
Exceptional items - restructuring (costs)/credit	(0.9)	10.5

The Group's restructuring programme is now complete and therefore we do not expect to recognise any further exceptional restructuring costs/credits in relation to this programme.

8 Net finance income

Finance income

	2022 £ m	2021 £ m
Interest income from amounts owed by Group undertakings	30.1	92.9
Interest income on assets under lease	-	2.3
Interest income on bank deposits	0.2	-
Dividend income	-	200.0
Net foreign exchange gains on financing transactions	33.0	-
Other finance income	7.2	5.8
Total finance income	70.5	301.0

Finance cost

	2022 £ m	2021 £ m
Interest on amounts owed to Group undertakings	(9.4)	(47.7)
Contingent rents paid in respect of leases	-	(15.4)
Interest expense on lease liabilities	-	(0.5)
Interest expense on bank overdrafts and borrowings	(1.7)	(1.0)
Net foreign exchange losses on financing transactions	-	13.7
Total finance costs	(11.1)	(50.9)
Net finance income	59.4	250.1

On 16 December 2021 the Company received a dividend of £200.0m from it's 100% owned subsidiary British Gas Limited.

9 Directors' remuneration

The Directors were remunerated as employees of Centrica plc Group and did not receive any remuneration, from any source, for their services as Directors of the Company during the current or preceding financial year. Accordingly, no details in respect of their emoluments have therefore been included in these financial statements.

10 Auditor's remuneration

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

	2022 £ m	2021 £ m
Audit fees	(0.1)	(0.1)

10 Auditor's remuneration (continued)

Auditor's 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 statements of its ultimate parent, Centrica plc.

11 Income tax

Tax charged in the Income Statement

	2022 £ m	2021 £ m
Current taxation		
UK corporation tax at 19% (2021: 19%)	(10.2)	(5.7)
UK corporation tax adjustment to prior periods	-	0.6
	(10.2)	(5.1)
Deferred taxation		
Origination and reversal of temporary differences	3.9	4.7
Changes in tax rates	0.4	(0.3)
Adjustment in respect of prior period	0.5	(0.2)
Total deferred taxation	4.8	4.2
Taxation on profit	(5.4)	(0.9)

The UK rate of corporation tax for the year ended 31 December 2022 was 19% (2021: 19%). The rate of corporation tax has increased to 25% with effect from 1 April 2023. As at 31 December 2022 the deferred tax balances included in these Financial Statements are based on the enacted rate of corporation tax 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 loss before tax are reconciled below:

	2022 £ m	2021 £ m
Profit before tax	289.3	122.4
Tax on profit at standard UK corporation tax rate of 19% (2021: 19%)	(55.0)	(23.3)
Decrease in current tax from adjustment for prior periods	0.5	0.4
Decrease from effect of revenues exempt from taxation	0.8	38.0
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	(2.8)	(1.2)
Decrease (increase) arising from group relief tax reconciliation	42.4	(15.7)
Decrease from transfer pricing adjustments	7.5	0.8
Deferred tax credit/(expense) relating to changes in tax rates or laws	0.4	(0.3)
Other tax effects for reconciliation between accounting profit and tax expense	0.8	0.4
Total tax charge	(5.4)	(0.9)

11 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 £ m	Other items £ m	Pensions £ m	Total £ m
1 January 2022	1.7	(16.2)	(42.4)	(56.9)
Credited/(charged) to the Income Statement	4.6	5.4	(5.7)	4.3
Credited to other comprehensive income	-	-	24.3	24.3
Prior period adjustments	0.8	(0.4)	0.1	0.5
Recognised in equity	-	1.5	-	1.5
31 December 2022	7.1	(9.7)	(23.7)	(26.3)

	Accelerated tax depreciation £ m	Other items £ m	Pensions £ m	Total £ m
1 January 2021	(2.6)	(20.8)	(8.8)	(32.2)
Credited/(charged) to the Income Statement	5.0	3.8	(7.4)	1.4
Credited to other comprehensive income	-	-	(26.6)	(26.6)
Prior period adjustments	(0.7)	0.1	0.4	(0.2)
Recognised in equity	-	0.7	-	0.7
31 December 2021	1.7	(16.2)	(42.4)	(56.9)

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:

	2022		2021	
	Assets £ m	Liabilities £ m	Assets £ m	Liabilities £ m
Gross deferred tax balances crystallising after one year	-	(26.3)	-	(56.9)
	-	(26.3)	-	(56.9)

Deferred tax income recognised directly in other comprehensive income of £24.3m (2021: expense of £26.6m) relates to the Company's share of actuarial losses in the year on the remeasurement of Group pension scheme assets and liabilities and pensions deficit reduction payments.

12 Property, plant and equipment

	Plant, equipment and vehicles £ m
Cost	
At 1 January 2022	106.1
Additions	1.2
Disposals and surrenders	(21.2)
At 31 December 2022	86.1
Accumulated depreciation and impairment	
At 1 January 2022	(98.8)
Charge for the year	(3.5)
Disposals and surrenders	21.2
At 31 December 2022	(81.1)
Net book value	
At 31 December 2022	5.0
At 31 December 2021	7.3

13 Intangible assets

	Customer relationships and brands £ m	Application software £ m	Goodwill £ m	Total £ m
Cost or valuation				
At 1 January 2022	64.0	927.3	33.2	1,024.5
Additions and capitalised borrowing costs	11.0	5.8	-	16.8
Disposals and surrenders	(9.0)	(40.0)	-	(49.0)
At 31 December 2022	66.0	893.1	33.2	992.3
Amortisation				
At 1 January 2022	(50.2)	(684.6)	-	(734.8)
Amortisation	(9.6)	(80.1)	-	(89.7)
Disposals and surrenders	9.1	35.4	-	44.5
Impairment	-	(0.5)	-	(0.5)
At 31 December 2022	(50.7)	(729.8)	-	(780.5)
Carrying amount				
At 31 December 2022	15.3	163.3	33.2	211.8

13 Intangible assets (continued)

	Customer relationships and brands £ m	Application software £ m	Goodwill £ m	Total £ m
At 31 December 2021	14.0	242.7	33.2	289.9

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	CGUs	Carrying amount £m
Trade and assets of Enron Direct	2001	CBS & BG Energy	11.1
Trade and assets of Electricity Direct (UK) Limited	2005	CBS & BG EnergyUK Business	11.6
ECL Investments Limited and ECL Contracts Limited	2011	BG Energy	4.4
Hillserve Limited	2011	BG Energy	5.2
British Gas Direct Employment Limited	2012	BG Energy	0.9
			33.2

Application software includes the customer relationship management system for British Gas Energy. The net book value of these assets is £52m and the remaining useful economic life over which the asset will be amortised is 4 years.

14 Investments

The Company retains 100 ordinary shares of £1 in British Gas X Limited representing 100% ownership.

The Company retains a £1 ordinary share in British Gas Limited, a 100% subsidiary undertaking in this year and last.

The Company also continues to hold a £100 investment (representing a 0.001% interest) in Finance Scotland CEPS Limited Partnership, registered in Scotland.

Finance Scotland CPP Limited Partnership, in which the Company held a £100 investment (representing a 0.004% interest), was dissolved on 8 May 2023.

14 Investments (continued)

Details of the subsidiaries as at 31 December 2022 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2022	2021
British Gas Limited*	Energy supply	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom	Ordinary shares	100%	100%
British Gas X Limited*	Energy Supply	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom	Ordinary shares	100%	100%

* indicates direct investment of the Company

15 Trade and other receivables

	2022		2021	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade receivables	1,950.3	-	1,298.2	-
Provision for impairment of trade receivables	(778.2)	-	(566.3)	-
Net trade receivables	1,172.1	-	731.9	-
Amounts owed by Group undertakings	2,959.0	-	3,147.3	-
Accrued energy income	1,193.3	-	732.3	-
Prepayments	123.6	-	65.6	-
Other receivables	732.3	79.9	214.5	172.7
Contract assets	20.1	10.3	30.4	20.7
	6,200.4	90.2	4,922.0	193.4

The amounts owed by Group undertakings have been presented on a net basis where there is a legal right of offset, and the intent is to settle amounts on a net basis. Included within the net amounts owed by Group undertakings disclosed above is £3,417.9m (2021: £2,609.6m) due from Centrica plc that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 0.35% and 2.72% per annum during 2022 (2021: 3.61% and 4.23%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

15 Trade and other receivables (continued)

Included within the other receivables balance as at 31 December 2022 are Supplier of Last Resort (SoLR) levy claims amounts totalling £275m (2021: £234m), with £253m (2021: £124m) classified as current and £22m (2021: £110m) classified as non-current.

Following the unprecedented rise in commodity prices in the second half of 2021, a number of UK energy suppliers were unable to continue trading and the Group was appointed as the Supplier of Last Resort for the customers of nine suppliers.

Under Ofgem's licence conditions, the Group is entitled to make a Last Resort Supplier Payment claim for the shortfall between costs reasonably incurred in supplying gas and electricity to premises under the Last Resort Supply Direction, and the charges recovered from customers (which are limited by the tariff cap).

The Group submitted an initial claim in 2021, covering a six-month period from the date of appointment, and received confirmation of Ofgem's acceptance in December 2021. The claim primarily covered incremental commodity costs, incurred as a result of procuring gas and electricity to supply affected customers. The initial claim is currently being settled in 12 monthly instalments ending in April 2023 and a total of £258 million has been received during 2022. The Group submitted a second claim to Ofgem in Autumn 2022, recognising both actual commodity costs incurred and additional costs which were not included in the initial claim. This includes the recovery of customer credit balances, where the Group had not waived the right to do so. The second claim was accepted by Ofgem in December 2022 and will be settled between April 2023 and April 2024.

16 Derivative financial instruments - Assets

	2022		2021	
	Current	Non-current	Current	Non-current
	£m	£ m	£m	£ m
Derivative financial instruments	4,992.4	2,175.8	7,393.5	1,590.9

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

Derivative financial assets include amounts due from Group undertakings of £4,544m (2021 £5,699m).

17 Inventories

	2022	2021
	£ m	£ m
Raw materials and consumables	8.5	5.6
Finished goods and goods for resale	0.5	-
	9.0	5.6

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

18 Loans and borrowings

	31 December 2022	31 December 2021
	£ m	£ m
Current bank overdrafts, loans and borrowings		
Bank overdrafts	(52.9)	(14.9)

Bank overdrafts
Bank overdrafts are repayable on demand and attract variable interest of base rate plus 1.00% or base rate plus 1.25%, depending upon the bank.

19 Trade and other payables

	2022		2021	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade payables	(181.7)	-	(138.0)	-
Transportation accruals	(309.8)	-	(229.5)	-
Accrued expenses	(365.4)	(14.2)	(366.1)	(7.9)
Deferred income	(851.1)	(7.5)	(221.9)	(15.0)
Amounts owed to Group undertakings (ii)	(2,263.6)	-	(1,877.8)	-
Social security and other taxes	(51.7)	-	(36.1)	-
Other payables (i)	(650.6)	-	(584.4)	-
	(4,673.9)	(21.7)	(3,453.8)	(22.9)

(i) Other payables includes a liability for renewable obligation certificates of £593.2m (2021: £533.6m).

(ii) Amounts owed to Group undertakings have been presented on a net basis where there is a legal right of offset and the intent is to settle amounts on a net basis. Included within the net amounts owed to Group undertakings is £685.7m (2021: £876.6m) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 0.35% and 2.72% per annum during 2022 (2021: 3.61% and 4.23%). The other net amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

20 Provisions for other liabilities and charges

	Restructuring £ m	Onerous contracts £ m	Other provisions £ m	Total £ m
At 1 January 2022	(5.5)	(0.3)	(9.0)	(14.8)
Charged to the Income Statement	0.3	(284.0)	(3.6)	(287.3)
Unused provision reversed to the Income Statement	-	48.5	-	48.5
Provisions used	0.6	-	4.5	5.1
At 31 December 2022	(4.6)	(235.8)	(8.1)	(248.5)
Non-current liabilities	(1.1)	(69.0)	(0.6)	(70.7)
Current liabilities	(3.5)	(166.8)	(7.5)	(177.8)

Restructuring
The provision predominantly relates to costs reduction programmes. Utilisation is expected within one year, except for some pension strains.

20 Provisions for other liabilities and charges (continued)

Onerous sales contracts

On 1 October 2022 the Group acquired the UK B2B customer book and associated assets of AvantiGas ON Limited ('Avanti') including the hedging book in respect of the customers acquired. On acquisition, an onerous contract provision of £284 million and a derivative asset of £254 million have been separately recognised representing the expected losses and associated hedges of acquired customers who are expected to remain on their existing fixed price tariffs before anticipated renewals onto a standard variable tariff. The derivative asset reflects the increase in prices since contracts to purchase commodity for the acquired customers were entered into. Based on a small unhedged element and movement in forward prices the acquisition resulted in a net consideration received of £16 million. The transaction has been accounted for as an asset acquisition on the basis that the assets and liabilities acquired did not constitute a business.

The onerous contract provision relating to Avanti was partly reversed to the income statement in 2022 reflecting the delivery to fixed price tariff customers. £166m of the remaining provision is expected to be utilised within one year and the remaining £69m expected to be fully utilised in 2024.

Other provisions

The provision at 31 December 2022 includes £1.3m in relation to employer's national insurance charges expected to arise at exercise dates on employee share schemes (2021: £1.9m), £nil in relation to smart metering costs (2021: £3.3m), £3.1m in relation to a construction costs dispute (2021: £3.1m) and £3.7m in relation to other minor provisions including legacy cost disputes (2021: £0.7m). The expected utilisation profile is as follows: £7.5m within one year and £0.6m within one to five years.

21 Pension and other schemes

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'.

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.

21 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities

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

	2022 Assets £ m	2022 Liabilities £ m	2022 Total £ m	2021 Assets £ m	2021 Liabilities £ m	2021 Total £ m
1 January	2,822.1	(2,608.4)	213.7	2,719.0	(2,667.0)	52.0
Items included in the Income Statement:						
Current service cost	-	(10.1)	(10.1)	-	(11.4)	(11.4)
Contributions by employer in respect of employee salary sacrifice arrangements	2.5	(2.5)	-	2.9	(2.9)	-
Past service cost	-	-	-	-	-	-
Termination benefits	-	2.7	2.7	-	9.3	9.3
Interest income/(expense)	54.6	(47.4)	7.2	44.6	(38.8)	5.8
Other movements:						
Return on plan assets, excluding interest income	(1,348.8)	-	(1,348.8)	48.7	-	48.7
Re-measurement gains/(losses)	-	1,232.8	1,232.8	-	23.0	23.0
Employer contributions	27.2	-	27.2	86.3	-	86.3
Plan participants contributions	0.1	(0.1)	-	0.1	(0.1)	-
Benefits paid from schemes	(75.8)	75.8	-	(79.5)	79.5	-
Transfers from provisions for other liabilities and charges	-	-	-	-	-	-
31 December	1,481.9	(1,357.2)	124.7	2,822.1	(2,608.4)	213.7

Presented in the Statement of Financial Position as:

	2022 £ m	2021 £ m
Retirement benefit assets	124.7	213.7
	124.7	213.7

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

	2022 £ m	2021 £ m
Actuarial loss (actual return less expected return on pension scheme assets)	-	-
Return on plan assets, excluding interest income	(1,348.8)	48.7
Experience loss arising on the scheme liabilities	(68.7)	(52.8)
Changes in assumptions underlying the present value of the schemes' liabilities	1,301.5	75.8
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(435.1)	(506.8)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(551.1)	(435.1)

21 Pension and other schemes (continued)

Pensions scheme contributions

Note 22 to the Group financial statements provides details of the triennial review based on the position at 31 March 2018 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 £6m of employer contributions during 2023 at an average rate of 20% of pensionable pay together with contributions via the salary sacrifice arrangement of £3m.

Although the Group has established a new funding arrangement in the year based on the position as at 31 March 2018, 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:

	2022			2021		
	Quoted £ m	Unquoted £ m	Total £ m	Quoted £ m	Unquoted £ m	Total £m
Equities	18.9	486.1	505.0	19.9	462.0	481.9
Corporate bonds	23.6	-	23.6	2,392.6	31.0	2,423.6
High-yield debt	106.1	1,330.2	1,436.3	2,719.9	1,196.9	3,916.8
Liability matching assets	2,833.6	1,342.7	4,176.3	1,963.0	1,355.6	3,318.6
Property	-	366.2	366.2	-	439.2	439.2
Cash pending investment	205.2	-	205.2	85.5	-	85.5
Loan and interest	-	(403.0)	(403.0)	-	-	-
Group pension scheme assets [(i)]	3,187.4	3,122.2	6,309.6	7,180.9	3,484.7	10,665.6
Company share of the above (£'000)	-	-	-	-	-	-

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

Defined contribution pension scheme

The total cost charged to Income Statement of £21.5m (2021: £23.0m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

22 Capital and reserves

Allotted, called up and fully paid shares

	2022 No.	2022 £	2021 No.	2021 £
Ordinary shares of £1 each	800,000,100	800,000,100	800,000,100	800,000,100

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Authorised share capital

The Company has no authorised share capital, as permitted by the provisions of the Companies Act 2006.

22 Capital and reserves (continued)

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

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 periods 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 six employee share schemes which gave rise to a charge of £2.2m (2021: £2.2m). The fair value of employee share options is the market value of the shares at the award date. The major schemes are described below.

Conditional Share Incentive Plan (CSIP)
Awards under CSIP (previously known as On Track Incentive Plan) are available to senior executives, senior and middle management. The number of shares awarded is dependent on annual targets for individual targets and business unit financial performance. These shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards. The fair value of the awards is the market price of the shares on the date of the award.

Restricted Share Scheme (RSS)
Participation in RSS is determined on a case by case basis, at the discretion of management, and in 2020 an award was given to employees who otherwise would have been eligible for a cash bonus under the CSIP scheme, known as the Retention Share Award.

These shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards.
The fair value of the awards is the market price of the shares on the date of the award.

Profit Share Award
The Profit Share Award is awarded annually and the value of the award will be decided at the end of each financial year and will be primarily based on the Group's performance in the previous financial year. The number of shares awarded will be based on the average share price for the three working days prior to the award grant date. All employees employed by a Centrica plc participating company on 31 December in the year before the date of grant and employed on the date of grant are eligible to receive the Profit Share Award.These shares have a three year vesting period and the shares are all held in trust. Leaving prior to vesting date will normally mean forfeiting rights to the invested share awards.

23 Share-based payments (continued)

Sharesave

Under Sharesave, the Group Board may grant options over shares in Centrica plc to all UK-based employees of the Group. To date, the Board has approved the grant of options with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three and/or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire six months after maturity. Exercise of options is subject to continued employment within the Group except where permitted by the rules of the scheme.

The fair value of employee share options is measured using the Black-Scholes model.

24 Dividends

During the year there was an interim dividend paid of £nil (2021: £2,150m) to its immediate parent undertaking, GB Gas Holdings Limited. The Directors do not recommend the payment of a final dividend (2021: £nil).

25 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 (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 Limited (BGL), 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 BGL. CEML and BGL 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 BGL in which BGL agreed to source commodities as required by the Company the price for which is determined by the back-to-back contracts entered into by BGL. 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 BGL. 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.

Contractual commitments in relation to other contracts

As at 31 December 2022, 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.

	2022 £ m	2021 £ m
LNG capacity	326.9	376.9
Transportation capacity	78.4	91.6
Energy Company Obligation	31.0	41.5
Outsourcing of services	39.3	40.5
Smart meter arrangement with MAPs	52.6	95.2
Other commitments	12.5	36.5
	540.7	682.2

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: BGL 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 BGL and CEML.

26 Fair value of financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back-to-back contractual arrangements associated with the Energy Marketing and Trading business with 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 BGL, 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 BGL. CEML and BGL 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 IFRS 9 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 IFRS 9 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 IFRS 9, 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 BGL in which BGL agreed to source commodities as requested by BGTL, the price for which is determined by the back-to-back contracts entered into by BGL. 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. BGL 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.

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.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company adopts Group internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

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.

26 Fair value of financial instruments (continued)

Financial instruments carried at fair value

	31 December 2022			31 December 2021		
	Fair value and carrying value £ m	**Level 2 £ m**	**Level 3 £ m**	**Fair value and carrying value £ m**	**Level 2 £ m**	**Level 3 £ m**
Derivative financial assets - held for trading under IFRS 9						
Energy derivatives	7,069.9	4,622.1	2,447.8	8,970.0	6,809.7	2,160.3
Foreign exchange derivatives	48.1	48.1	-	14.4	14.4	-
Derivative financial assets - in hedge accounting relationships						
Total financial assets at fair value	7,118.0	4,670.2	2,447.8	8,984.4	6,824.1	2,160.3
Derivative financial liabilities - held for trading under IFRS 9						
Energy derivatives	(7,030.8)	(4,583.0)	(2,447.8)	(9,233.1)	(7,072.9)	(2,160.2)
Foreign exchange derivatives	(48.0)	(48.0)	-	(14.4)	(14.4)	-
Derivative financial liabilities - in hedge accounting relationships						
Total financial liabilities at fair value	(7,078.8)	(4,631.0)	(2,447.8)	(9,247.5)	(7,087.3)	(2,160.2)
Net financial instruments at fair value	39.2	39.2	-	(263.1)	(263.2)	0.1

26 Fair value of financial instruments (continued)

Derivative financial assets include amounts due from Group undertakings of £4,544m (2021: £5,699m). Derivative financial liabilities include amounts due to Group undertakings of £5,123m (2021: £8,942m).

27 Related party transactions

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

Summary of transactions with other related parties

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:

	2022 Associates £m	2021 Associates £m
Purchase of power - EDF Energy Nuclear Generation Limited	(564.3)	(300.0)
Amounts owed to related parties - EDF Energy Nuclear Generation Limited	(102.3)	(40.0)
Amounts owed to related parties - Lake Acquisitions Limited	(119.8)	(119.8)
	(786.4)	(459.8)

No provision for bad or doubtful debts owed by related parties was required (2021: £nil).

28 Parent and ultimate parent undertaking

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

The ultimate parent undertaking and the ultimate 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.

The registered address of Centrica plc is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD, United Kingdom.

29 Non-adjusting events after the financial period

In January 2023, following a media article which suggested failures in processes and policies by a third-party contractor, British Gas suspended all warrant activity and committed to completing a thorough investigation. The investigation into prepayment meter (PPM) fitted under court warrant, was overseen by independent consultants Promontory Financial Services. In May 2023 it revealed there were no systemic issues with prepayment meters fitted under warrant. However, it did find a limited number of cases where lessons need to be learned.

Reflecting the importance and sensitivity of the activity the company made the decision that any future fitting of PPMs under warrant will be brought in-house to ensure greater oversight. British Gas unveiled plans for a series of improvements to the way it deals with the fitting of prepayment meters under warrant. The actions included commitment to Ofgem's voluntary Code of Practice on prepayment installations. Prepayment warrant activity remains suspended and will resume no earlier than October 2023.

Finance Scotland CPP Limited Partnership, in which the Company held a £100 investment (representing a 0.004% interest), was dissolved on 8 May 2023.