

Registration number: 06796004

British Gas Finance Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



British Gas Finance Limited

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British Gas Finance Limited

Strategic Report for the Year Ended 31 December 2018

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

Principal activities

The principal activities of the Company are to purchase, own and maintain assets (predominantly cars and vans) and lease these assets to the Centrica plc group (the 'Group').

Since April 2016 the Company has also acted as a credit broker introducing British Gas customers to third party lenders to finance central heating products. The Company is authorised and regulated by the FCA for this purpose. On the 31 July 2018 internal arrangements were transferred over to British Gas Services Limited. From this date British Gas Services Limited commenced all Credit Broking activity through the appointed representative British Gas New Heating.

Review of the business

The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2018 is £5,173,000 (2017: £5,306,000). The financial position of the Company is presented on page 12. At 31 December 2018 net assets are £53,652,000 (2017: £48,480,000) and retained earnings are £13,652,000 (2017: £8,480,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 41-50 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

Exit from the European Union

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

Key performance indicators (KPIs)

Given the nature of the business, the Company's Directors are of the opinion that the KPIs are necessary for an understanding of the development, performance and position of the business are retained profit, profit for the financial year and net assets. The results and dividends of the Company are shown in the Directors' Report on page 3. The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are discussed on pages 18 to 19 of the Group's Annual Report and Accounts 2018 which does not form part of this report.

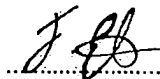
Future developments

The Group is currently implementing the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of British Gas Finance Limited Ltd.

British Gas Finance Limited

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

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

 J. ELLIOT

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 06796004

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

British Gas Finance Limited

Directors' Report for the Year Ended 31 December 2018

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

Directors of the Company

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

A M Todd (resigned 28 March 2018)

C J Stern (resigned 30 September 2018)

P M Simon

I E Ronald (appointed 28 March 2018)

Results and dividends

The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2018 is £5,173,000 (2017: £5,306,000). No dividends were paid during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil) in respect of the financial year ended 31 December 2018.

Objectives and policies

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

Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk is limited predominantly to exposures with other Group companies or exposure to credit risk which arises in the normal course of operations as a result of the potential for a customer defaulting on its payable balance. In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. An ageing of receivables is monitored and used to manage the exposure to credit risk.

Cash forecasts identifying liquidity requirements of the Company are produced and reviewed periodically to ensure there is sufficient financial headroom for at least a twelve month period from the date of approval of these financial statements.

On the 31 July 2018 all consumer credit activity was transferred over to British Gas Services Limited. From this date British Gas Services Limited commenced Credit Broking activity through the appointed representative British Gas New Heating.

British Gas Finance Limited

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

Future developments

Future developments are discussed in the Strategic Report on page 1.

Directors' and officers' liability

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

British Gas Finance Limited

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

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and 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 s418 of the Companies Act 2006.

Auditors

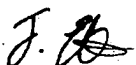
In accordance with Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

British Gas Finance Limited

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

Statement of Directors' Responsibilities (continued)

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


..... J. ELLIOT

By order of the Board for and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 06796004

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

British Gas Finance Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of British Gas Finance Limited (the Company):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 ('FRS 101');
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 17

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.

Conclusion related to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

British Gas Finance Limited

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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.

British Gas Finance Limited

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

We have nothing to report in respect of these matters.

Use of our report

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

D. Winstone

.....
Daryl Winstone (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Date: 27/6/19

British Gas Finance Limited**Income Statement for the Year Ended 31 December 2018**

	Note	2018 £ 000	2017 £ 000
Revenue	3	28,805	30,201
Cost of sales	5	<u>(22,267)</u>	<u>(20,936)</u>
Gross profit		6,538	9,265
Operating costs	5	(1,309)	(440)
Other income	4	<u>28</u>	<u>115</u>
Operating profit		5,257	8,940
Finance income	7	5,532	2,529
Finance costs	7	<u>(4,405)</u>	<u>(4,907)</u>
Profit before income tax		6,384	6,562
Taxation on profit	9	<u>(1,213)</u>	<u>(1,256)</u>
Profit for the year		<u>5,171</u>	<u>5,306</u>

The above results were derived from continuing operations.

British Gas Finance Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018	2017
	£ 000	£ 000
Profit for the year	<u>5,171</u>	<u>5,306</u>
Total comprehensive income for the year	<u>5,171</u>	<u>5,306</u>

The notes on pages 14 to 26 form an integral part of these financial statements.

British Gas Finance Limited

Statement of Financial Position as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Property, plant and equipment	10	<u>86,450</u>	<u>123,636</u>
Current assets			
Trade and other receivables	11	<u>96,642</u>	<u>68,868</u>
		<u>96,642</u>	<u>68,868</u>
Total assets		<u>183,092</u>	<u>192,504</u>
Current liabilities			
Trade and other payables	12	<u>(23,045)</u>	<u>(23,486)</u>
Borrowings	13	<u>(14,790)</u>	<u>(13,616)</u>
		<u>(37,835)</u>	<u>(37,102)</u>
Total assets less current liabilities		<u>145,257</u>	<u>155,402</u>
Non-current liabilities			
Deferred tax liabilities	9	<u>(3,032)</u>	<u>(3,216)</u>
Trade and other payables	12	<u>(20,000)</u>	<u>(20,000)</u>
Borrowings	13	<u>(68,574)</u>	<u>(83,706)</u>
		<u>(91,606)</u>	<u>(106,922)</u>
Total liabilities		<u>(129,441)</u>	<u>(144,024)</u>
Net assets		<u>53,651</u>	<u>48,480</u>
Equity			
Share capital	14	-	-
Share premium		40,000	40,000
Retained earnings	14	<u>13,651</u>	<u>8,480</u>
Total equity		<u>53,651</u>	<u>48,480</u>

The financial statements on pages 10 to 26 were approved and authorised for issue by the Board of Directors on 27 June 2019



J E Ronald

Director

Company number 06796004

The notes on pages 14 to 26 form an integral part of these financial statements.

British Gas Finance Limited**Statement of Changes in Equity for the Year Ended 31 December 2018**

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	-	40,000	8,480	48,480
Profit for the year	-	-	5,171	5,171
Total comprehensive income	-	-	5,171	5,171
At 31 December 2018	-	40,000	13,651	53,651

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	-	40,000	3,174	43,174
Profit for the year	-	-	5,306	5,306
Total comprehensive income	-	-	5,306	5,306
At 31 December 2017	-	40,000	8,480	48,480

The notes on pages 14 to 26 form an integral part of these financial statements.

British Gas Finance Limited

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

1 General information

British Gas Finance Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The registered office and principal place of business is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2 Accounting policies

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

From 1 January 2018, the following standards and amendments are effective in the Company's Financial Statements. Their first time adoption did not have a material impact on the financial statements:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers

IFRS 9: Financial Instruments

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

Classification of financial assets

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

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets and loan commitments. No changes to the impairment provisions were made on transition to IFRS 9.

IFRS 15: Revenue from contracts with customers

The Company adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. The impact of applying IFRS 15 is immaterial.

British Gas Finance Limited

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

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, 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:

- 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 apart from those which are relevant for the financial instruments which are held at fair value;
- certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company; and
- disclosures of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

Going concern

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

Revenue recognition

Operating lease income

Revenue includes operating lease income arising from rental contracts which is recognised on an accruals basis on a straight-line basis over the term of the lease.

Commission income

Commission income is income earned from financial institutions when the Company refers customers requiring finance for the purchase and installation of a boiler. The income is recognised when the boiler installation is complete.

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.

British Gas Finance Limited

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

2 Accounting policies (continued)

Leases

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

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

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

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

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

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

British Gas Finance Limited

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

2 Accounting policies (continued)

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

PP&E is included in the Statement of Financial Position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' is used), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation of PP&E

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

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

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

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

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than 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.

British Gas Finance Limited

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

2 Accounting policies (continued)

Financial assets and liabilities

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

a) Trade and other receivables

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

Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for impairment losses. Changes in the Company's impairment policy as a result of the application of IFRS 9 are shown at note 2. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

b) Trade and other payables

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

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

c) Share capital

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

d) Cash and cash equivalents

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

e) Interest-bearing 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.

British Gas Finance Limited

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

2 Accounting policies (continued)

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.

The Company underwent a significant sale and leaseback transaction during the year. The Company has undertaken an analysis to classify the subsequent lease as either operating or finance lease. The resulting judgement was that the lease satisfied the criteria of an operating lease and therefore has been classified as such.

3 Revenue

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

	2018 £ 000	2017 £ 000
Operating lease income from rental contracts	27,957	26,851
Commission income	848	3,350
	<u>28,805</u>	<u>30,201</u>

All revenue arose from activities in the United Kingdom.

4 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2018 £ 000	2017 £ 000
Profit on disposal of fixed assets	28	115

5 Analysis of costs by nature

	2018			2017		
	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Depreciation, amortisation, impairment and write-downs	16,466	-	16,466	20,413	-	20,413
Other operating costs	5,801	1,309	7,110	523	440	963
Total operating costs by nature	<u>22,267</u>	<u>1,309</u>	<u>23,576</u>	<u>20,936</u>	<u>440</u>	<u>21,376</u>

British Gas Finance Limited

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

6 Employees' costs

There were no employees during the year (2017:nil)

The Directors were remunerated as employees of the Centrica plc Group and did not receive any remuneration, from any source, specifically for their services as Directors of the Company during the current or preceding financial year.

7 Net finance income/(cost)

Finance income

	2018 £ 000	2017 £ 000
Interest income from amounts owed by Group undertakings	<u>5,532</u>	<u>2,529</u>

Finance costs

	2018 £ 000	2017 £ 000
Interest on amounts owed to Group undertakings	(135)	(418)
Interest on obligations under finance leases	<u>(4,270)</u>	<u>(4,489)</u>
Total finance costs	<u>(4,405)</u>	<u>(4,907)</u>
Net finance income/costs	<u>1,127</u>	<u>(2,378)</u>

8 Auditors' remuneration

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

	2018 £	2017 £
Audit Fees	<u>10,000</u>	<u>10,000</u>

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

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

British Gas Finance Limited

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

9 Income tax

Tax charged/(credited) in the Income Statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax at 19.00% (2017: 19.25%)	1,396	703
Deferred taxation		
Arising from origination and reversal of temporary differences - UK	(183)	560
Arising from changes in tax rates and laws	-	(7)
Total deferred taxation	<u>(183)</u>	<u>553</u>
Tax expense in the Income Statement	<u>1,213</u>	<u>1,256</u>

The main rate of corporation tax for the year to 31 December 2018 was 19.00% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

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

	2018 £ 000	2017 £ 000
Profit before tax	<u>6,384</u>	<u>6,562</u>
Tax on profit/(loss) at standard UK corporation tax rate of 19.00% (2017: 19.25%)	1,213	1,263
Effects of:		
Increase (decrease) arising from group relief tax reconciliation	205	160
Increase (decrease) from transfer pricing adjustments	(205)	(160)
Deferred tax expense (credit) relating to changes in tax rates or laws	-	(7)
Total income tax expense	<u>1,213</u>	<u>1,256</u>

Deferred tax

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

British Gas Finance Limited

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

9 Income tax (continued)

	Accelerated tax depreciation (corporation tax) £ 000
1 January 2017	2,663
Charged to the income statement	553
31 December 2017	3,216
Charged/(credited) to the income statement	(183)
31 December 2018	3,032

10 Property, plant and equipment

	Motor vehicles £ 000
Cost	
At 1 January 2018	176,137
Additions	5,235
Disposals	(57,690)
At 31 December 2018	123,682
Depreciation	
At 1 January 2018	52,501
Depreciation charge for the year	16,466
Disposals	(31,735)
At 31 December 2018	37,232
Net Book Value	
At 31 December 2018	86,450
At 31 December 2017	123,636

On 31 January 2018 the Company carried out a sale and operating leaseback. Vehicles with net book value of £19,734,470 were sold and leased back under an operating lease.

Assets held under finance leases

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	2018 Motor Vehicles £ 000	2017 Motor Vehicles £ 000
Cost-capitalised finance lease	120,753	120,632
Accumulated depreciation	(35,601)	(22,245)
Net book value	85,152	98,387

British Gas Finance Limited

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

10 Property, plant and equipment (continued)

Assets leased under operating leases

All property, plant and equipment are leased to fellow subsidiary companies in the Group under operating subleases.

11 Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Trade receivables	161	76
Amounts owed by Group undertakings	96,334	68,607
Prepayments	147	185
	<u>96,642</u>	<u>68,868</u>

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £158,183,643 (2017: £75,315,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72 and 4.13% per annum during 2018 (2017: 3.66 and 3.86%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

12 Trade and other payables

	2018		2017	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Accrued expenses	461	-	-	-
Amounts owed to Group undertakings	6,965	20,000	6,421	20,000
Social security and other taxes	2,031	-	1,297	-
Deferred income	13,403	-	15,396	-
Other payables	185	-	372	-
	<u>23,045</u>	<u>20,000</u>	<u>23,486</u>	<u>20,000</u>

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. All amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand except £20,000,000 which is owed to Centrica Plc on 29 April 2022 unless otherwise agreed in writing.

13 Borrowings

	2018 £ 000	2017 £ 000
Non-current bank overdrafts, loans and borrowings		
Finance lease liabilities	<u>68,574</u>	<u>83,706</u>

British Gas Finance Limited

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

13 Borrowings (continued)

	2018 £ 000	2017 £ 000
Current bank overdrafts, loans and borrowings		
Bank overdrafts	142	207
Finance lease liabilities	14,648	13,409
	<u>14,790</u>	<u>13,616</u>

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

The company entered into lease arrangements in respect of its fleet of vehicles for its engineers. The lease terms are between 4 and 6 years and the Company has the option to purchase the vehicles at a defined residual value.

Finance lease liabilities are secured as the rights to the leased asset revert to the lessor in the event of default.

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

	2018 £ 000	2017 £ 000
Not later than 1 year	18,872	17,976
Later than 1 year and not later than 5 years	73,384	78,020
Later than 5 years	1,839	11,852
Undiscounted minimum lease payments	<u>94,095</u>	<u>107,848</u>

The above includes future finance charges as at 31 December 2018 of £10,873,000 (2017: £10,733,000).

The present value of the finance lease liabilities is equal to undiscounted minimum lease payments less future finance charge and is as broken down as follows:

	2018 £ 000	2017 £ 000
Not later than 1 year	14,648	13,616
Later than 1 year and not later than 5 years	66,714	71,854
Later than 5 years	1,860	11,852
Present value of finance lease liabilities	<u>83,222</u>	<u>97,322</u>

14 Share capital

Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary Shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

British Gas Finance Limited

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

14 Share capital (continued)

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.

15 Operating leases

Leases as lessor

At 31 December 2018 the Company had total future minimum lease income under non-cancellable operating leases as follows:

	2018 £ 000	2017 £ 000
Within one year	32,112	25,352
In two to five years	30,321	46,778
	<u>62,433</u>	<u>72,130</u>

Lease as lessee

At 31 December 2018 the Company had total future minimum lease liability under non-cancellable operating leases as follows:

	2018 £ 000	2017 £ 000
Within one year	2,985	-
In two to five years	974	-
	<u>3,959</u>	<u>-</u>

Operating lease liability relates wholly to the sale and operating lease transaction which occurred during the year.

16 Other commitments and contingencies

Capital commitments

The total amount contracted for but not provided in the financial statements was £735,044 (2017: £2,262,000). This amount relates to vehicles to be purchased under finance leases.

The amount is due within one year.

British Gas Finance Limited

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

17 Parent and ultimate parent undertaking

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

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

The financial statements can be also be obtained from the following address:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales