

Registration number: 08811254

British Gas Limited (formerly British Gas Energy Procurement Limited)

Annual Report and Financial Statements

for the Year Ended 31 December 2021



British Gas Limited (formerly British Gas Energy Procurement Limited)

Contents

	Page(s)
Strategic Report	1 to 4
Directors' Report	5 to 8
Statement of Directors' Responsibilities	7
Independent Auditor's Report	9 to 12
Income Statement	13
Statement of Comprehensive Income	14
Statement of Financial Position	15 to 16
Statement of Changes in Equity	17
Notes to the Financial Statements	18 to 32

British Gas Limited (formerly British Gas Energy Procurement Limited)

Strategic Report for the Year Ended 31 December 2021

The Directors present their Strategic Report for British Gas Limited (formerly British Gas Energy Procurement Limited) (the 'Company') for the year ended 31 December 2021.

Principal activity

The principal activities of the Company is the procurement and supply of physical gas and power to British Gas Trading Limited ('BGTL').

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 Act. Day to day authority is delegated to executives, and the Directors are supported by management in setting, approving and overseeing the execution of the business strategy and related 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

Centrica plc is conscious that decisions made by all Group companies could have an impact on other stakeholders where relevant. By considering the Group's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Group aims to ensure that the decisions of all Group companies, including the Company, are consistent and appropriate in all circumstances. Decisions regarding payment of any dividends by subsidiary companies of Centrica plc are taken at a Group level based upon the expertise and professional guidance of the Group's financial controllers, taking into account a range of factors, including: the long-term viability of the Company; its expected cash flow and financing requirements; the ongoing need for strategic investment in the Company; and the expectations of the ultimate parent company's shareholders as a supplier of long-term equity capital to the Company.

On 16 December 2021 the Directors approved the forgiveness of £200.0m of the intercompany balance owed by its parent company BGTL. The forgiveness of the intercompany loan represented a deemed distribution to its parent company BGTL and as a result an interim dividend of £200.0m (2020: £nil) was paid. The Directors do not recommend the payment of a final dividend (2020: £nil).

(b) The interests of the company's employees

Although the Directors recognise that employees within the Group are fundamental to the future growth and success of Centrica, the company has no direct employees therefore the consideration of the interests of the Company's employees has not applied to the decisions made by the Directors.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Strategic Report for the Year Ended 31 December 2021 (continued)

(c) The need to foster the company's business relationships with suppliers, customers and others

Centrica plc recognises the benefits for all Group companies of engaging with a broad range of stakeholders and that developing and delivering the Group's strategy depends on building and maintaining constructive relationships. In ensuring the Company fosters the business relationships with suppliers, customers and others, the Company and its Directors are therefore supported by the overarching programme of extensive engagement with such stakeholders that is conducted across the wider Centrica Group. The breadth of stakeholder considerations in our operating or commercial trading companies is set out on pages 8 to 9 of Centrica plc's Annual Report and Accounts 2021.

(d) The impact of the company's operations on the community and the environment

Centrica plc appreciates that collaboration with charities and community groups helps to create stronger communities and provides insights that enable the Group to understand the impact of all Group companies on the community and environment, and the consequences of its decisions in the long term. In ensuring the Company takes into account the impact of its operations on the community and the environment, the Company and its Directors are supported by the overarching programme of extensive engagement with the community and wider environment that is conducted across the wider Centrica Group. Further information about how the Centrica Group engages with communities and NGOs can be found on pages 30 to 31 of Centrica plc's Annual Report and Accounts 2021.

(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

The Company's activities support the wider strategy of the Centrica Group and, owing to the fact the Company is a wholly owned subsidiary of Centrica plc, the Directors are required only to balance the interests of corporate shareholders that are themselves wholly owned subsidiaries of Centrica plc, rather than any third party members.

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 price cap or back to back in the case of fixed customer contracts 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 is not expecting any direct material impacts but will keep monitoring the position.

Culture

The Company's culture is set by the Group and embedded in all we do. Further information on the Group's culture can be found on pages 26 to 36 of Centrica plc's Annual Report and Accounts 2021.

Stakeholder Engagement

As is normal for large companies, the Directors delegate authority for day to day management of the Company to executives engaged in setting, approving and overseeing execution of the business strategy and related policies of the Group. While there may be cases where the Directors judge that the Company should engage directly with certain stakeholder groups or on specific issues, the size and spread of both our stakeholders and the Group means that generally, stakeholder engagement best takes place at an operational or Group level. The Directors consider that as well as being a more efficient and effective approach, this also helps achieve a greater positive impact on environmental, social and other issues than working alone as an individual company. A description of how the Group engages with its stakeholders is set out on pages 8 to 9 of Centrica plc's Annual Report and Accounts 2021.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Strategic Report for the Year Ended 31 December 2021 (continued)

Review of the business

The Company was incorporated in 2013 and is a wholly owned subsidiary of BGTL. The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The financial position of the Company is set out on page 13. The net assets for the financial year ended 31 December 2021 are £69.4m (2020: £218.7m). The decrease in net assets mainly relates to the Company forgiving a £200m loan owed by British Gas Trading Limited in December 2021, see note 15 for details.

The financial performance of the Company is set out in the Directors' Report on page 5. The Company presented a significant decrease in both revenue and cost of sales in 2021 compared to 2020. The decrease is driven by re-measurement of hedging contracts within the scope of IFRS 9 as a result of volatile market conditions and high energy wholesale prices. Cost of sales includes significant gains on revaluation of a derivatives which offsets with commodities costs, revenue will reflect the opposite as significant losses on revaluation of the flow agreement will offset with energy sales. There is £nil net impact from the revaluation of derivatives.

Since 2013, the Company has entered into a contract of daily physical supply with BGTL. The pricing of the physical supply contract is based on the realised cost of procuring physical gas and power but the Company is responsible for the within day balancing and any risk of contract non-delivery. For these services the Company receives a fixed fee of £42m per annum. The Company also shares in BGTL's price risk of the energy procurement activities for British Gas residential tariff customers by incurring any gain or loss on the cost of procurement in excess of a corridor (+/-7.5%) when compared to a market rateable strategy (although this will be mitigated by a cost base adjustment to ensure the risk the Company takes on is commensurate to the fee it receives). The Company is also responsible for negotiating and entering into new contracts to meet its physical supply obligations. The agreement remains operational until both parties agree to terminate the agreement.

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 38-43 of the Group's Annual Report and Accounts 2021, which does not form part of this report.

Key performance indicators ('KPIs')

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 disclosed on pages 14-15 of the Group's Annual Report and Accounts 2021, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 5.

In addition to the Group KPIs noted above, the Directors of the Company believe that the operating profit of the business is the critical KPI specific to the Company. The operating profit is noted within the income statement reported on page 13.

Future developments

The Directors expect the Company to continue to procure physical gas and power in order to supply BGTL.

Approved by the Board on 29/09/2022 and signed on its behalf by:

British Gas Limited (formerly British Gas Energy Procurement Limited)

Strategic Report for the Year Ended 31 December 2021 (continued)



Samantha Hood

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

Company registered in England and Wales, No. 08811254

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

British Gas Limited (formerly British Gas Energy Procurement Limited)

Directors' Report for the Year Ended 31 December 2021

The Directors present their report and the audited financial statements for the year ended 31 December 2021.

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

S E Mussenden (resigned 30 June 2021)

J P Pikunić (resigned 8 March 2021)

P M Simon (resigned 17 September 2021)

G C McKenna (appointed 8 March 2021)

C McLeod (appointed 30 June 2021)

C A N O'Kelly (appointed 17 September 2021)

Results and dividends

The results of the Company are set out on page 13. The profit for the financial year ended 31 December 2021 is £50,700,000 (2020: profit £54,500,000).

On 16 December 2021 the Company paid an interim dividend of £200.0m (2020: £nil) to its parent company, British Gas Trading Limited. The Directors do not recommend the payment of a final dividend (2020: £nil).

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 policy

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 in terms of price risk, credit risk, liquidity risk and cash flow risk

Exposure to price risk, counterparty credit risk, liquidity risk and cash flow risk arises in the normal course of the Company's business. The Company uses a range of derivatives to hedge exposures to energy price risks. 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. Credit risk is managed through the Group continually reviewing its rating thresholds for relevant counterparty credit limits and updating these as necessary, based on a consistent set of principles.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Directors' Report for the Year Ended 31 December 2021 (continued)

Future developments

Future developments are discussed in the Strategic Report on page 3.

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.

In the context of the continuing economic uncertainty caused by commodity price volatility and energy market uncertainty, the Directors have updated their Group going concern assessment as at 30 June 2022 to factor in the Group's updated principal risks, strategy and forecasts, together with modelling further downside sensitivities. The going concern assessment has considered the financial impact on the Group's credit and liquidity headroom of certain stress events impacting the Group's key risks over a 12-18 month horizon. The Group's forecasts show that the Group will maintain sufficient headroom, underpinned by unrestricted cash and cash equivalents, net of bank overdrafts, of c.£3.4 billion as at 30 June 2022, and c.£2.9 billion of undrawn committed facilities, which remain committed until at least 2024.

The Centrica Group interim results were released on 28th July 2022. These demonstrated a resilient financial performance despite a difficult energy supply situation, increases in wholesale gas price, and the ongoing challenges caused by the pandemic. The Group's balance sheet continues to be much stronger than 2020, with a positive cash position of £0.3 billion compared to 2020 when the Group had net debt of £3.0 billion and an overall adjusted operating profit of £1,342m at half year.

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.

Non-adjusting events after the financial period

There have been no non-adjusting significant events affecting the Company after the year end.

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 place. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Directors' Report for the Year Ended 31 December 2021 (continued)

Statement of Directors' Responsibilities

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

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

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

British Gas Limited (formerly British Gas Energy Procurement Limited)

Directors' Report for the Year Ended 31 December 2021 (continued)

Approved by the Board on 29/09/2022 and signed on its behalf by:



..... Samantha Hood

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

Company registered in England and Wales, No. 08811254
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

British Gas Limited (formerly British Gas Energy Procurement Limited)

Independent Auditor's Report to the Members of British Gas Limited (formerly British Gas Energy Procurement Limited)

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of British Gas Limited (formerly British Gas Energy Procurement Limited) (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 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 19.

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.

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.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Independent Auditor's Report to the Members of British Gas Limited (formerly British Gas Energy Procurement 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 about their own identification and assessment of the risks of irregularities.

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 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 them are described below:

British Gas Limited (formerly British Gas Energy Procurement Limited)

Independent Auditor's Report to the Members of British Gas Limited (formerly British Gas Energy Procurement Limited) (continued)

- Revenue recognition with a focus on inappropriate trades as a result of potential manipulation. There is a risk that revenue may be recognised from trades which are inaccurate, missing, non-existent or with counterparties that have not been approved:

We obtained an understanding of the trading control environment and tested the design and implementation of relevant new counterparty and deal capture trading controls. We used computer assisted audit techniques which included testing that trades were with approved counterparties and to test that trades were valid and accurate by matching to third-party confirmations, and performed additional procedures in respect of unconfirmed and late entered trades.

- Revenue recognition with a focus on complex trades being valued incorrectly. Given the subjectivity involved with the valuations of complex trades, there is a risk that the judgements and assumptions applied are inappropriate:

We performed a detailed assessment of the control environment, including testing the operating effectiveness of controls over new and amended complex models, and testing of certain system application controls. We involved financial instrument specialists to perform detailed substantive testing of complex material models, including challenging significant assumptions and judgements involved in the model methodologies.

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 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

British Gas Limited (formerly British Gas Energy Procurement Limited)

Independent Auditor's Report to the Members of British Gas Limited (formerly British Gas Energy Procurement Limited) (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

D. Winstone

Daryl Winstone (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 29/9/22

British Gas Limited (formerly British Gas Energy Procurement Limited)

Income Statement for the Year Ended 31 December 2021

	Note	2021 £ m	2020 £ m
Revenue	4	487.1	2,484.3
Cost of sales	5	<u>(454.7)</u>	<u>(2,451.3)</u>
Gross profit		<u>32.4</u>	<u>33.0</u>
Operating profit		32.4	33.0
Finance income	7	<u>18.3</u>	<u>21.5</u>
Profit before taxation		50.7	54.5
Taxation on profit	10	<u>-</u>	<u>-</u>
Profit for the year		<u><u>50.7</u></u>	<u><u>54.5</u></u>

The above results were derived from continuing operations.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Statement of Comprehensive Income for the Year Ended 31 December 2021

	2021	2020
	£ m	£ m
Profit for the year	<u>50.7</u>	<u>54.5</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>50.7</u>	<u>54.5</u>

The notes on pages 18 to 32 form an integral part of these financial statements.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Statement of Financial Position as at 31 December 2021

			(as restated)*
	Note	2021 £ m	2020 £ m
Non-current assets			
Trade and other receivables	11	294.6	476.3
Derivative financial instruments	17	576.4	68.4
		<u>871.0</u>	<u>544.7</u>
Current assets			
Trade and other receivables	11	345.1	-
Inventories	12	204.3	207.9
Derivative financial instruments	17	4,315.1	678.2
		<u>4,864.5</u>	<u>886.1</u>
Total assets		<u>5,735.5</u>	<u>1,430.8</u>
Current liabilities			
Trade and other payables	13	(774.6)	(465.5)
Derivative financial instruments	17	(4,315.1)	(678.2)
		<u>(5,089.7)</u>	<u>(1,143.7)</u>
Net current liabilities		<u>(225.2)</u>	<u>(257.6)</u>
Total assets less current liabilities		<u>645.8</u>	<u>287.1</u>
Non-current liabilities			
Derivative financial instruments	17	(576.4)	(68.4)
		<u>(576.4)</u>	<u>(68.4)</u>
Total liabilities		<u>(5,666.1)</u>	<u>(1,212.1)</u>
Net assets		<u>69.4</u>	<u>218.7</u>
Equity			
Share capital	14	-	-
Retained earnings		69.4	218.7
Total equity		<u>69.4</u>	<u>218.7</u>

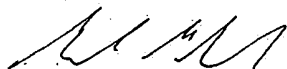
*The prior year has been re-presented to reclassify £476,300,000 of current receivables owed by Group undertakings to non-current receivables owed by Group undertakings as they do not meet the IAS 1 'Presentation of Financial Statements' classification criteria for current assets. The non-current receivables owed by Group undertakings are unlikely to be repaid before 31 December 2022. See note 11 for further details.

The financial statements on pages 13 to 32 were approved and authorised for issue by the Board of Directors on 29/09/2022 and signed on its behalf by:

The notes on pages 18 to 32 form an integral part of these financial statements.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Statement of Financial Position as at 31 December 2021 (continued)



.....
C McLeod
Director

Company number 08811254

British Gas Limited (formerly British Gas Energy Procurement Limited)

Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital £ m	Retained earnings £ m	Total equity £ m
At 1 January 2021	-	218.7	218.7
Profit for the year	-	50.7	50.7
Total comprehensive income	-	50.7	50.7
Dividends	-	(200.0)	(200.0)
At 31 December 2021	-	69.4	69.4

	Share capital £ m	Retained earnings £ m	Total equity £ m
At 1 January 2020	-	164.2	164.2
Profit for the year	-	54.5	54.5
Total comprehensive income	-	54.5	54.5
At 31 December 2020	-	218.7	218.7

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

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

The address of its registered office and principal place of business is:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 4.

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 2021, the following standards and amendments are effective in the Company's Financial Statements:

- Amendments to IFRS 17 and IFRS 4: 'Insurance Contracts' - deferral of IFRS 9; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2.

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;

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

- certain disclosure requirements of IFRS 15 'Revenue from Contracts with Customers'; 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 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.

Measurement convention

These Financial Statements are presented in pound sterling (with all values rounded to the nearest hundred thousand pounds (£100,000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Restatement of prior year balances

The prior year has been restated to reclassify the short-term loan of £476,300,000 to long-term as the loan does not meet IAS 1 'Presentation of Financial Statements' classification criteria for current assets. See note 11 for further details. The following table summarises the impact of the prior period reclassification on the financial statements of the Company:

	2020
Statement of Financial Position	£
Increase in non-current amounts owed by group undertakings	476,300,000
Decrease in current amounts owed by group undertakings	(476,300,000)
Net Assets	-

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.

In the context of the continuing economic uncertainty caused by commodity price volatility and energy market uncertainty, the Directors have updated their Group going concern assessment as at 30 June 2022 to factor in the Group's updated principal risks, strategy and forecasts, together with modelling further downside sensitivities. The going concern assessment has considered the financial impact on the Group's credit and liquidity headroom of certain stress events impacting the Group's key risks over a 12-18 month horizon. The Group's forecasts show that the Group will maintain sufficient headroom, underpinned by unrestricted cash and cash equivalents, net of bank overdrafts, of c.£3.4 billion as at 30 June 2022, and c.£2.9 billion of undrawn committed facilities, which remain committed until at least 2024.

The Centrica Group interim results were released on 28th July 2022. These demonstrated a resilient financial performance despite a difficult energy supply situation, increases in wholesale gas price, and the ongoing challenges caused by the pandemic. The Group's balance sheet continues to be much stronger than 2020, with a positive cash position of £0.3 billion compared to 2020 when the Group had net debt of £3.0 billion and an overall adjusted operating profit of £1,342m at half year.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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.

Summary of significant accounting policies and key accounting estimates

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

Revenue recognition

Revenue from rendering of goods and services is recognised when the customer benefits from the goods and services provided by the Company and falls into the scope of IFRS 15 'Revenue Recognition'.

Realised (settled) and unrealised (fair value changes) net gains and losses relating to the sale of gas and power are also recognised within revenue but are in scope of IFRS 9 'Financial Instruments'.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is shown net of sales/ value added tax, returns, rebates and discounts.

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.

Cost of Sales

Cost of sales includes the cost of gas and electricity purchased during the year including balancing costs of day ahead and within day trading and gains and losses arising from changes in the fair value on derivatives. It also includes employee recharges from BGTL. The IFRS 9 realised (settled) and unrealised (fair valued changes) net gains and losses in cost of sales relate to derivative contracts which economically hedge price risks for associated energy purchase contracts.

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

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.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

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.

Inventories

Renewable Obligation Certificates ('ROCs') are valued at the lower of cost and estimated net realisable value.

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.

Prepayments and accrued income comprise payments made in advance relating to the following year, and income relating to the current year, which will not be invoiced until after the reporting date.

- 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.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2 Accounting policies (continued)

- 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.

Derivative financial instruments

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, 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 2021 of the ultimate controlling party being Centrica plc, in the Strategic Report - Principal Risks and Uncertainties on pages 34 to 43 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes 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. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Derivatives are classified as current and non-current assets or liabilities. 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.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

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 judgements in applying the Company's accounting policies

The following are critical 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.

Flow agreement

Within the flow agreement between the Company and BGTL, the Company is deemed to be acting as principal given its role performing balancing and shaping activities along with sourcing of gas and power to meet BGTL's customer demand. On this basis the Company has recognised the flow agreement charge to BGTL within revenue.

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.

Determination of fair values - energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The valuations and the assumptions underpinning these valuations are considered to be appropriate. Any material change in the estimation of energy derivatives in the next 12 months would be offset by an equal amount due under the flow agreement on the statement of financial position and would have nil impact on the income statement. More details on the assumptions used in determining fair valuation techniques are provided in note 17.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

4 Revenue

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

	2021	2020
	£ m	£ m
Sale of goods: Energy sales to BGTL	3,954.6	3,179.4
Sale of goods: Renewable Obligation Certificates	639.2	656.9
Unrealised loss on revaluation of the flow agreement with BGTL	(4,148.7)	(1,394.0)
Rendering of services: Service fee under flow agreement with BGTL	42.0	42.0
	<u>487.1</u>	<u>2,484.3</u>

All revenues of the Company were generated by activities in the UK in both the current and prior periods.

The Company presented a significant decrease in both revenue and cost of sales in 2021 compared to 2020. The decrease is driven by re-measurement of hedging contracts within the scope of IFRS 9 as a result of volatile market conditions and high energy wholesale prices. Cost of sales includes significant gains on revaluation of a derivatives which offsets with commodities costs, revenue will reflect the opposite as significant losses on revaluation of the flow agreement will offset with energy sales. There is £nil net impact from the revaluation of derivatives.

5 Analysis of costs by nature

	2021	2020
	Cost of sales	Cost of sales
	£ m	£ m
Commodities costs	(3,955.6)	(3,178.0)
Commodities costs: Renewable Obligation Certificates	(639.2)	(656.9)
Gain on revaluation of derivatives	4,148.7	1,394.0
Operational costs	(8.6)	(10.4)
	<u>(454.7)</u>	<u>(2,451.3)</u>

Total costs by nature

The Company presented a significant decrease in both revenue and cost of sales in 2021 compared to 2020. The decrease is driven by re-measurement of hedging contracts within the scope of IFRS 9 as a result of volatile market conditions and high energy wholesale prices. Cost of sales includes significant gains on revaluation of a derivatives which offsets with commodities costs, revenue will reflect the opposite as significant losses on revaluation of the flow agreement will offset with energy sales. There is £nil net impact from the revaluation of derivatives.

6 Employee costs

The Company has no employees (2020: nil) and no direct staff costs (2020: £nil). Any costs relating to employees are borne by other Group companies and recharged to the Company, as shown in note 5 within operational costs.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

7 Net finance income

Finance income

	2021 £ m	2020 £ m
Interest income from amounts owed by Group undertakings	18.3	21.5
Total finance income	18.3	21.5

8 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.

9 Auditor's remuneration

Auditor's remuneration totalling £94,196 (2020: £77,250) relates to fees for the audit of the Financial Statements of the Company.

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

10 Income tax

Tax credited/(charged) in the Income Statement

	2021 £ m	2020 £ m
Current taxation		
UK corporation tax at 19% (2020: 19%)	-	-
	-	-

The UK rate of corporation tax for the year to 31 December 2021 was 19% (2020: 19%).

The corporation tax was due to increase to 25% with effect from 1 April 2023. However, on 23 September 2022 the Government announced that the rate of corporation tax will remain at 19%.

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:

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

10 Income tax (continued)

	2021 £ m	2020 £ m
Profit before tax	50.7	54.5
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	(9.6)	(10.4)
Decrease arising from group relief tax reconciliation	10.1	9.4
(Increase)/decrease from transfer pricing adjustments	(0.5)	1.0
Total tax credit/(charge)	-	-

11 Trade and other receivables

	2021	2021	2020 (restated)*	2020 (restated)*
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Amounts owed by Group undertakings	345.1	294.6	-	476.3

*The prior year has been restated to reclassify the short-term loan of £476.3m to long-term as the loan does not meet IAS 1 'Presentation of Financial Statements' classification criteria for current assets.

The amounts owed by Group undertakings have been presented on a net basis if there is a legal right of offset, and the intent is to settle amounts on a net basis. Included within the amounts owed by Group undertakings disclosed above in non-current assets is £294.6m (2020: £476.3m) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.61% and 4.23% per annum during 2021 (2020: 4.42% and 4.73%). In December 2021 the Company agreed to forgive an amount equal to £200m in relation to amounts owed by British Gas Trading Limited, see note 15. All amounts owed by Group undertakings are unsecured and repayable on demand.

The carrying value of financial assets within trade and other receivables that are past due that are not considered to be individually impaired is £nil (2020: £nil).

12 Inventories

	2021 £ m	2020 £ m
Renewable obligation certificates	204.3	207.9

Renewable Obligation Certificates recognised as an expense in the year amounted to £639.2m (2020: £656.9m) and is included in cost of sales in the Income Statement. There is no significant difference between the replacement cost of inventories and their carrying amounts (2020: no significant difference).

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

13 Trade and other payables

	2021 Current £ m	2020 Current £ m
Accrued expenses	(755.5)	(242.4)
Amounts owed to Group undertakings	(19.1)	(223.1)
	<u>(774.6)</u>	<u>(465.5)</u>

Included within the amounts owed to Group undertakings disclosed above is £19.1m (2020: £223.1m) which are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

The amounts owed to Group undertakings have been presented on a net basis if there is a legal right of offset, and the intent is to settle amounts on a net basis. All amounts owed to Group undertakings are interest-free, unsecured and repayable on demand.

14 Capital and reserves

Allotted, called up and fully paid shares

	2021		2020	
	No.	£	No.	£
Ordinary share of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

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 Dividends

	31 December 2021 £ m	31 December 2020 £ m
Interim dividend of £200,000,000.00 (2020 - £Nil) per ordinary share	<u>200</u>	<u>-</u>

On 16 December 2021 the Directors approved the forgiveness of £200.0m of the intercompany balance owed by its parent company BGTL. The forgiveness of the intercompany loan represented a deemed distribution to its parent company BGTL and as a result an interim dividend of £200.0m (2020: £nil) was paid. The Directors do not recommend the payment of a final dividend (2020: £nil).

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

16 Commitments and contingencies

As at 31 December 2021, 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.

	2021	2020
	£ m	£ m
Commodity purchase contracts	18,755.8	9,141.1

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

	2021	2020
	£ m	£ m
Within one year	8,048.3	3,084.1
Between one and five years	10,707.6	6,057.0
	<u>18,755.8</u>	<u>9,141.1</u>

The significant increase in commodity purchase contract commitments is as a result of high energy wholesale prices. Commodity purchase costs are reimbursed through the flow agreement between the Company and BGTL.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Fair value of financial instruments

Determination of fair values

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

Fair value hierarchy

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

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

The reconciliation of the Level 3 fair value measurements during the year is as follows:

	2021 Instruments at fair value through profit & loss £ m	2020 Instruments at fair value through profit & loss £ m
Level 3 financial instruments		
1 January	(545.6)	895.9
Total unrealised losses:		
Recognised in the Income Statement	(4,148.7)	(1,441.5)
31 December	<u>(4,694.3)</u>	<u>(545.6)</u>

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Fair value of financial instruments (continued)

Financial instruments carried at fair value

		2021			2020	
	Fair value and carrying value £ m	Level 2 ⁽ⁱ⁾ £ m	Level 3 £ m	Fair value and carrying value £ m	Level 2 ⁽ⁱ⁾ £ m	Level 3 £ m
Derivative financial assets - held for trading under IFRS 9						
Energy derivatives- for procurement/ optimisation	4,792.9	4,792.9	-	646.1	646.1	-
Flow agreement	98.6	-	98.6	100.5	-	100.5
Total financial assets at fair value through profit or loss	4,891.5	4,792.9	98.6	746.6	646.1	100.5
Derivative financial liabilities - held for trading under IFRS 9						
Energy derivatives- for procurement/ optimisation	(98.6)	(98.6)	-	(100.5)	(100.5)	-
Flow agreement	(4,792.9)	-	(4,792.9)	(646.1)	-	(646.1)
Total financial liabilities at fair value through profit or loss	(4,891.5)	(98.6)	(4,792.9)	(746.6)	(100.5)	(646.1)
Net financial instruments at fair value	-	4,694.3	(4,694.3)	-	545.6	(545.6)

⁽ⁱ⁾ There were no material transfers during the financial year between level 1 and 2.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Fair value of financial instruments (continued)

Methods and assumptions

There were no material transfers during the financial year between level 1 and 2 and there were no material transfers during the financial year between level 2 and 3.

Transfers between fair value hierarchy levels are based on the values of the relevant assets and liabilities at the beginning of the reporting period.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:

- quoted prices in active markets for the same instrument (i.e. without modification or repackaging) (Level 1);
- quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
- valuation techniques for which any significant input is not based on observable market data (Level 3).

Assessing the significance of a particular input requires judgement. For the purposes of the fair value hierarchy, the Directors have determined Level 2 as the appropriate hierarchy level for all valuations generated from the Company's trading system given that all financial assets and financial liabilities measured and held at fair value mature within the active period. For trades currently assessed using valuation techniques outside the trading system, the Directors have determined Level 3 as the appropriate level.

(b) Valuation techniques used to derive Level 2 and 3 fair values and valuation process

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2021 was 1% per annum (2020: 1% per annum).

For Level 3 energy derivatives, the main input used by the Company pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. The active period for the UK Gas, Power, Coal, and Oil markets is deemed to be 4 years and Emissions 3 years. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% per annum (2020: 1%). The flow agreement between the Company and BGTL is considered a level 3 energy derivative as there is no observable market data available for the flow agreement.

British Gas Limited (formerly British Gas Energy Procurement Limited)

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Fair value of financial instruments (continued)

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. However any higher or lower valuation for Level 3 financial instruments would be offset by an equal and opposite movement for the Level 2 financial instruments such that the net impact to the income statement would be £nil.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed into the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IFRS 9, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available. The amount that has yet to be recognised in the Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows (included within the relevant derivative balance on the balance sheet):

	2021	2020
	£ m	£ m
Net deferred losses		
1 January	(19.0)	(22.5)
Recognised in the Income Statement during the year	1.7	3.5
31 December	<u>(17.3)</u>	<u>(19.0)</u>

18 Parent and ultimate parent undertaking

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

The ultimate parent undertaking 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.

19 Non adjusting events after the financial period

On 2 March 2022, in response to the Russian invasion of Ukraine, Centrica plc announced its intention to exit gas supply agreements with Russian businesses. The Company's trading exposures to Russian counterparties are being continuously monitored by the business, although the biggest risk is the impact on global commodity prices. The impact of the Ukraine conflict on the Group and the Company is discussed further in the Strategic Report on page 1.