Registration number: 08811254

British Gas Energy Procurement Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015

British Gas Energy Procurement Limited

Contents

British Gas Energy Procurement Limited

Strategic Report for the Year Ended 31 December 2015

The Directors present their Strategic Report of British Gas Energy Procurement Limited ('the Company') for the year ended 31 December 2015.

Review of the business
The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The Company's transition date to FRS 101 was 11 December 2013, the date of incorporation, and comparatives have been restated accordingly. For details of the transition to FRS 101 and the effect of the change on the Company's financial position and Income Statement, see note 2 and 23.

The Company was incorporated on 11 December 2013 and is a wholly owned subsidiary of British Gas Trading Limited ('BGTL').

Since 31 December 2013, the Company has entered into a daily physical supply contract 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 BGEPL takes on is commensurate to the fee it receives). The Company is also responsible for negotiating and entering into new load book contracts. The agreement remains operational until both parties agree to terminate the agreement.

Principal risks and uncertainties
From the perspective of the Company, the risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the risks and uncertainties of the Group which include those of the Company are discussed on pages 38-42 of the 2015 Annual Report and Financial Statements of the Group which does not form part of this report.

Key performance indicators (KPIs)
The Directors monitor performance of the individual business units that constitute the Company. KPIs relating to these business units are included in the Centrica plc 2015 Annual Report and Accounts on pages 20 and 21.

Financial Position and Financial Performance
The financial position and performance of the Company is set out in the Directors' Report on page 3

Future developments

The Company continues to procure physical gas and power in order to supply BGTL. On 13 May 2015 Centrica entered into new agreements to increase the volume of gas it is buying from Statoil ASA and Gazprom Marketing & Trading Limited.

The Group is currently implementing the results of a strategic review. Further details of this review are included in the Centrica plc Annual Report and Accounts 2015. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company.

In June 2016, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. These movements could impact, amongst other things, the fair value of derivative financial instruments and other assets. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015. Overall, management assesses the direct impacts on the Company to be minimal in the short term.

Approved by the Board on 29 September 2016 and signed on its behalf by:

....

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

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

British Gas Energy Procurement Limited

Directors' Report for the Year Ended 31 December 2015

The Directors present their report and the Financial Statements for the year ended 31 December 2015.

Directors of the Company
The directors who held office during the year and up to the date of signing the financial statements were:

J M Campbell

C A Ling

L R Pearson

L Rubasingham (resigned 19 February 2016)

S J Buck (appointed 31 May 2015)

M R Uzielli (resigned 31 May 2015)

S C Dee (appointed 12 October 2015)

Results and dividends
The results of the Company are set out on page 7. The profit for the financial year ended 31 December 2015 is £21.5m (2014: profit £15.5m). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2014: £nil).

Financial Position
The financial position of the Company is presented in the Statement of Financial Position on page 9. Total shareholder's funds at 31 December 2015 were £37.0m (2014: £15.5m).

Future developments
Future developments are discussed in the Strategic Report on page 2.

Post balance sheet events
Post balance sheet events are detailed in note 24 of the financial statements.

Directors' and officers' liabilities
In accordance with the Articles of Association, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and officers of the Company. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2015 and remain in force.

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

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), 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 FRS 101 has been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Approved by the Board on 29 September 2016 and signed on its behalf by:

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

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

Independent Auditors' Report to the Members of British Gas Energy Procurement Limited

Report on the Financial Statements

Our opinion
In our opinion, British Gas Energy Procurement Limited's Financial statments (the 'Financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- Statement of Financial Position as at 31 December 2015;
- Income Statement and Statement of Comprehensive Income for the year then ended;
- Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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 addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Directors' remuneration

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

Responsibilities for the financial statements and the audit

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

....

Sally Nicholson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
1 Embankment Place
London
29 September 2016

British Gas Energy Procurement Limited

Income Statement for the Year Ended 31 December 2015

	Note	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Revenue	4	5,184.1	6,529.9
Cost of sales	5	(5,167.2)	(6,513.1)
Gross profit		16.9	16.8
Exceptional items - impairment charges/reversals	7	-	(3.3)
Operating profit		16.9	13.5
Finance income	8	10.4	6.8
Profit before income tax		27.3	20.3
Income tax expense	10	(5.8)	(4.8)
Profit for the year / period		21.5	15.5

The above results were derived from continuing operations.

Statement of Comprehensive Income for the Year Ended 31 December 2015

	Note	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Profit for the year / period		21.5	15.5
Total comprehensive income for the year / period		21.5	15.5

The notes on pages 11 to 28 form an integral part of these Financial Statements.

British Gas Energy Procurement Limited

Statement of Financial Position as at 31 December 2015

	Note	31 Deccember 2015 £ m	31 December 2014 £ m
Non-current assets			
Intangible assets	11	7.8	9.5
Derivative financial instruments	20	117.4	205.9
Other financial assets	14	-	0.1
		125.2	215.5
Current assets			
Trade and other receivables	12	393.9	394.0
Inventories	13	201.9	179.2
Derivative financial instruments	20	766.4	754.0
Cash and cash equivalents	18	0.7	5.7
		1,362.9	1,332.9
Total assets		1,488.1	1,548.4
Current liabilities			
Trade and other payables	15	(567.3)	(573.0)
Derivative financial instruments	20	(766.4)	(754.0)
		(1,333.7)	(1,327.0)
Non-current liabilities			
Derivative financial instruments	20	(117.4)	(205.9)
		(117.4)	(205.9)
Total liabilities		(1,451.1)	(1,532.9)
Net assets		37.0	15.5
Equity			
Called up share capital	16	-	-
Retained earnings		37.0	15.5
Total equity		37.0	15.5

The Financial Statements on pages 7 to 28 were approved and authorised for issue by the Board of Directors on 29 September 2016 and signed on its behalf by:

....

S C Dee

Director

Company number 08811254

The notes on pages 11 to 28 form an integral part of these Financial Statements.

British Gas Energy Procurement Limited

Statement of Changes in Equity for the Year Ended 31 December 2015

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 January 2015	-	15.5	15.5
Profit for the year	-	21.5	21.5
Other comprehensive income	-	-	-
At 31 December 2015	-	37.0	37.0

	Share capital £ m	Retained earnings £ m	Total £ m
On incorporation	-	-	-
Profit for the period	-	15.5	15.5
Other comprehensive income	-	-	-
At 31 December 2014	-	15.5	15.5

1 General information

The Company is limited by shares and is incorporated and domiciled in UK.

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

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales

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 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.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has effected the reported financial position, financial performance and cash flows of the Company is provided in note 23.

2 Accounting policies (continued)

Summary of disclosure exemptions

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these Financial Statements:

· Leases - on transition to FRS 101, the assessment of whether arrangements contain a lease or not is performed based on facts and circumstances existing at the date of transition;
· Fair value measurement of financial assets and financial liabilities at initial recognition – on transition to FRS 101, gains and losses in respect of the initial recognition of financial instruments are reinstated where appropriate so that IAS 39 requirements apply prospectively.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
· A Cash Flow Statement and related notes;
· Comparative period reconciliations for tangible fixed assets and intangible assets;
· Comparative period reconciliations for share capital
· Disclosures in respect of the compensation of Key Management Personnel;
· Disclosures in respect of capital management;
· The effects of new but not yet effective IFRSs.

Note that the Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these Financial Statements:

· Presentation of IAS format Financial Statements;
· Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101).

As the consolidated Financial Statements of Centrica Plc 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 instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value;

These financial statements are presented in pound sterling, which is also the functional currency of the Company.

The Financial Statements are prepared on the historical cost basis except for derivative financial instruments.

Going concern

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

Energy supply: 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 recognised on the basis of energy supplied during the year.

2 Accounting policies (continued)

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. It also includes employee recharges from British Gas Trading Limited.

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.

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

Foreign currencies

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

Taxation

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

2 Accounting policies (continued)

Other intangible assets
Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the reporting date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Company's Income Statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Purchased Renewable Obligation Certificates (ROCs) are recognised initially at cost within inventories and transferred to British Gas Trading Limited at the end of the compliance period to enable British Gas Trading Limited to meets its obligation.

Levy Exemption Certificates (LECs) are held on the Statement of Financial Position as inventory before being transferred to British Gas Trading Limited upon registration of certificates. In British Gas Trading Limited LECs are sold to certain business customers in order for them to save Climate Change Levy (CCL), which was introduced in the UK following the signing of the Kyoto Protocol. LECs are held at the lower of cost and net realisable value.

Impairment of non-financial assets
The carrying amounts of the Company's non-financial 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.

The recoverable amount of an asset or cash-generating unit 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 "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

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. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2 Accounting policies (continued)

Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas and power.

Certain purchase and sales contracts for the physical delivery of gas and power are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's Statement of Financial Position at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

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 2015 of the ultimate controlling party being Centrica plc, in the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42 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 or interest income and interest expense.

Derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

3 Critical accounting judgements and key sources of estimation uncertainty

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 judgements and the assumptions underpinning these judgements are considered to be appropriate.

Flow Agreement
Within the flow agreement between British Gas Energy Procurement Limited (BGEPL) and British Gas Trading Limited (BGTL), BGEPL has been deemed to be acting as principal given its role performing rebalancing and shaping activities along with sourcing of Gas and Power to meet BGTL customer demand. On this basis BGEPL has recognised the flow agreement charge to BGTL within revenue.

4 Revenue

Included in revenue is £(44.6)m (2014: £875.1m) relating to the mark to market valuation of the flow agreement with BGTL.

5 Analysis of costs by nature

	Year ended 31 December 2015 Cost of sales £ m	11 December 2013 to 31 December 2014 Cost of sales £ m
Commodities costs	(5,126.5)	(5,530.4)
Employee costs	(18.5)	(18.1)
MTM movement of energy derivatives	44.6	(875.1)
Contingent rents	(66.8)	(89.5)
Total operating costs by nature	(5,167.2)	(6,513.1)

6 Employees' costs

The Company has no employees. Any costs relating to employees are borne by other Centrica group companies and recharged to the Company.

7 Exceptional items

The following exceptional items were recognised in arriving at operating profit of the reporting period:

	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Impairment charges	-	(3.3)

In 2014, the value of the Company's investment in the CCC Carbon Fund II Limited Partnership was impaired following a valuation of the managed fund of which the Company holds a 3.75% stake. The Partnership was formed for the purpose of funding investments, to be managed by Climate Change Capital, in carbon emission reduction rights, emission allowances and derivatives thereof in accordance with a defined investment policy.

8 Finance Income

	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Interest income from amounts owed by group undertakings	10.4	6.8

9 Auditors' remuneration

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

Auditors' remuneration totalling £75,000 (2014: £99,704) relates to fees for the audit of the Financial Statements of the Company and includes fees in relation to the audit of the IFRS Group consolidation schedules, for the purpose of the Centrica plc group audit, which also contribute to the audit 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 Financial Statements the Group.

10 Income tax

Tax charged/(credited) in the Income Statement

	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Current taxation		
UK corporation tax at 20.25% (2014: 21.49%)	5.8	4.8

10 Income tax (continued)

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

	Year ended 31 December 2015 £ m	11 December 2013 to 31 December 2014 £ m
Profit before tax	27.3	20.3
Tax expense at standard UK tax rate 20.25% (2014: 21.49%)	5.5	4.4
Effects of:		
Net expenses non-deductible for tax purposes	-	0.7
Increase (decrease) in current tax from adjustment for prior periods	0.3	-
Increase (decrease) arising from group relief tax reconciliation	1.2	-
Increase (decrease) from transfer pricing adjustments	(1.2)	(0.3)
Total income tax expense	5.8	4.8

The main rate of corporation tax was reduced to 20% from 1 April 2015. Further reductions were enacted by Finance (No.2) Act 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These enacted reduced rates of corporation tax have been reflected within these Financial Statements. A further reduction in the rate, to 17% from 1 April 2020, was substantively enacted as part of Finance Act 2016 and is not reflected in the financial statements. As such, the previously enacted rate of 18% from 1 April 2020 will not come into effect. The impact of the reduction in the corporate tax rate to 17% on the financial statements is not expected to be significant.

11 Intangible assets

	Emission allowances £ m	Total £ m
Cost or valuation		
At 1 January 2015	9.5	9.5
Additions and capitalised borrowing costs	39.8	39.8
Disposals and surrenders	(41.5)	(41.5)
At 31 December 2015	7.8	7.8
Amortisation		
At 31 December 2015	-	-
Carrying amount		
At 31 December 2015	7.8	7.8

12 Trade and other receivables

	At 31 December 2015 Current £ m	At 31 December 2014 Current £ m
Amounts owed by group undertakings	388.9	378.5
Accrued energy income	-	10.5
Other receivables	5.0	5.0
	393.9	394.0

Within the amounts owed by Group undertakings is £388.9m (2014: £378.5m) which is interest-bearing. Interest is calculated using a quarterly rate determined by Group Treasury and linked to the cost of funds. The quarterly rates ranged between 2.36% and 2.88%. All amounts owed by Group undertakings are unsecured and repayable on demand.

13 Inventories

	At 31 December 2015 £ m	At 31 December 2014 £ m
Renewable Obligation Certificates	201.1	171.2
Levy exemption certificates	0.8	8.0
	201.9	179.2

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

14 Other financial assets

	At 31 December 2015 Non-current £ m	At 31 December 2014 Non-current £ m
Other loans and receivables	-	0.1

15 Trade and other payables

	At 31 December 2015 Current £ m	At 31 December 2014 Current £ m
Accrued expenses	(345.4)	(405.2)
Amounts owed to group undertakings	(221.9)	(167.8)
	(567.3)	(573.0)

The amounts owed to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

16 Called up Share Capital

	31 December 2015		31 December 2014	
	No.	£	No.	£
1 (2014: 1) ordinary shares of £1 each	1	1	1	1

17 Operating leases

The Company has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2014: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

The amount of contingent operating lease payments recognised as an expense during the year as cost of sales was £66,800,000 (2014 - £89,500,000).

18 Cash and cash equivalents

	At 31 December 2015 £ m	At 31 December 2014 £ m
Cash at bank	0.7	5.7

19 Other commitments and contingencies

As at 31 December 2015, the Company is obligated to 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.

	At 31 December 2015 £ m	At 31 December 2014 £ m
Commodity purchase contracts	26,660.6	22,088.0
Other commitments	902.1	1,054.3
	27,562.7	23,142.3

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

	At 31 December 2015 £ m	At 31 December 2014 £ m
Within one year	4,592.5	6,054.0
Between one and five years	11,589.8	7,684.0
After five years	10,478.3	8,350.0
	26,660.6	22,088.0

Contractual commitments to acquire intangible assets

The contractual commitments to acquire intangible assets are as follows at the reporting date.

	At 31 December 2015 £ m	At 31 December 2014 £ m
European Union Allowances	0.0	9.4

Other financial commitments

The Company has commitments to purchase Renewable Obligation Certificates of £902.1m (2014 - £936.0m) and Levy Exemption Certificates of Nil (2014 - £108.9m).

The total amount of other financial commitments not provided in the Financial Statements was £902.1m (2014 - £1,044.9m)

20 Fair value of financial instruments

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.

Determination of fair values and fair value hierachy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierachy 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 intpus 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 managements' best estimate of fair value.

Financial instruments carried at fair value

Fair value hierachy

31 December 2015	Fair value and carrying value £ m	*Fair value hierarchy* Level 1 £ m	Level 2 £ m	Level 3 £ m
Derivative financial assets - held for trading				
Energy derivatives – for procurement/optimisation	65.4	-	0.5	64.9
Flow agreement	818.4	-	-	818.4
Total financial assets at fair value through profit or loss	883.8	-	0.5	883.3
Derivative financial liabilities - held for trading				
Energy derivatives – for procurement/optimisation	(883.8)	-	(869.8)	(14.0)
Total financial liabilities at fair value through profit or loss	(883.8)	-	(869.8)	(14.0)
Total financial instruments at fair value	-	-	(869.3)	869.3

20 Fair value of financial instruments (continued)

Financial instruments carried at fair value

Prior Period	Fair value and carrying value £ m	Level 1 £ m	Level 2 £ m	Level 3 £ m
			Fair value hierarchy	
Derivative financial assets - held for trading				
Energy derivatives – for procurement/optimisation	96.7	-	49.7	47.0
Flow agreement	863.1	-	-	863.1
Total financial assets at fair value through profit or loss	959.8	-	49.7	910.1
Derivative financial liabilities - held for trading				
Energy derivatives – for procurement/optimisation	(959.8)	-	(911.2)	(48.6)
Total financial liabilities at fair value through profit or loss	(959.8)	-	(911.2)	(48.6)
Total financial instruments at fair value	-	-	(861.5)	861.5

Level 3 fair value reconciliation

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

	2015 Instruments at fair value through profit & loss £ m	2014 Instruments at fair value through profit & loss £ m
Level 3 financial instruments		
Start of Period	861.5	-
Total realised and unrealised gains:		
Recognised in the income statement	7.8	728.1
Purchases from BGTL	-	133.4
Total gains for the year for Level 3 financial instruments held at the end of the reporting year	869.3	861.5

20 Fair value of financial instruments (continued)

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

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 Company 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:

	2015	2014
Net deferred (gains)/losses	**£m**	£m
1 January / Incorporation	-	-
Net (gains) / losses deferred on new transactions	(38.6)	-
Recognised in the Income Statement during the year	0.9	-
31 December	(37.7)	-

21 Related party transactions

The Company has taken advantage of the exemptions under FRS 101 from disclosures in respect of related parties transactions with wholly-owned subsidiaries.

Directors' remuneration

The aggregate emoluments paid to directors in respect of their qualifying services were £1,368,630 (2014: £1,323,820*). The aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £87,788 (2014: £74,006). There were 2 directors (2014: 2) to whom retirement benefits are accruing under a defined benefit pension schemes. There were 5 directors (2014: 4) to whom retirement benefits are accruing under money purchase pension schemes. There were 7 directors (2014: 3) who received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme. There were 4 directors (2014: 1) who exercised share options relating to the ultimate parent company.

The highest paid director received emoluments of £379,483 (2014: £300,349*) and the company contributed £14,663 (2014: £8,172) to their pension scheme. The highest paid director is accruing retirement benefits under a money purchase pension scheme. The highest paid director received shares in respect of qualifying services under a long-term incentive scheme (2014: Nil). In both the current and prior year the highest paid director did not exercise share options relating to the ultimate parent company.

The prior year figures for aggregate emoluments paid to directors and remuneration of the highest paid director have been amended since the 2014 statutory accounts were finalised. This was due to a change in the method of allocation of emoluments to Group entities, as well as the inclusion of certain payments and allowances owed to directors.

The prior year emoluments have been restated to £1,323,820 (previously disclosed £1,274,324).

The prior year remuneration figure has been restated to £300,349 (previously disclosed £291,893).

22 Parent and ultimate parent undertaking

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

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

23 Transition to FRS 101

As stated in the 'basis of preparation' note, these are the Company's first Financial Statements prepared in accordance with FRS 101. The accounting policies set out in the policies note have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 101 financial position and financial performance, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables as well as in the related footnotes.

23 Transition to FRS 101 (continued)

Statement of Financial Position at 31 December 2014

	Note	As originally reported £ m	Reclassification £ m	Remeasurement £ m	As restated £ m
Non-current assets					
Intangible assets		9.5	-	-	9.5
Investments		0.1	(0.1)	-	-
Derivative financial assets		-	-	205.9	205.9
Other financial assets		-	0.1	-	0.1
		9.6	-	205.9	215.5
Current assets					
Trade and other receivables		394.0	-	-	394.0
Inventories		179.2	-	-	179.2
Derivative financial asset		-	-	754.0	754.0
Cash and cash equivalents		5.7	-	-	5.7
		578.9	-	754.0	1,332.9
Total assets		588.5	-	959.9	1,548.4
Current liabilities					
Trade and other payables		(573.0)	-	-	(573.0)
Derivative financial liabilities		-	-	(754.0)	(754.0)
		(573.0)	-	(754.0)	(1,327.0)
Non-current liabilities					
Derivative financial liabilities		-	-	(205.9)	(205.9)
		-	-	(205.9)	(205.9)
Total liabilities		(573.0)	-	(959.9)	(1,532.9)
Net Assets		15.5	-	-	15.5
Capital and reserves					
Retained earnings		15.5	-	-	15.5
Total equity		15.5	-	-	15.5

23 Transition to FRS 101 (continued)

Income Statement for the year ended 31 December 2014

	Note	As originally reported £ m	Remeasurement £ m	As restated £ m
Turnover		5,654.8	875.1	6,529.9
Cost of sales		(5,638.0)	(875.1)	(6,513.1)
Gross profit		16.8	-	16.8
Exceptional items		(3.3)	-	(3.3)
Operating profit		13.5	-	13.5
Finance income		6.8	-	6.8
Profit before income tax		20.3	-	20.3
Income tax expenses		(4.8)	-	(4.8)
Profit for the financial year		15.5	-	15.5

Reconciliation of Financial Position
Remeasurements for financial instruments have been recognised for the Company as under IFRS, financial instruments are required to be recognised on the Statement of Financial Position at fair value, with changes in fair value recognised in either the Income Statement or through reserves, depending on whether hedge accounting is applied and its effectiveness. As this is not required under UK GAAP (unless fair value accounting rules are applied), such financial instruments have not previously been recognised. Remeasurements are identifiable in the transition Statement of Financial Position as they are included separately under Derivitives financial instruments.

Reconciliation of Income Statement
On transition to FRS 101, derivative positions that were previously unrecognised under UK GAAP were recognised at fair value, with mark-to-market movements recognised in profit or loss.

Accordingly, comparative cost of sales increased by £875.1m, representing fair value movements in derivative positions held with external counterparties through a back to back arrangement with BGTL. Revenue increased by the same amount, representing the corresponding revaluation of the flow agreement with BGTL.

24 Non adjusting events after the financial period

In June 2016, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. These movements could impact, amongst other things, the fair value of derivative financial instruments and other assets. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015. Overall, management assesses the direct impacts on the Company to be minimal in the short term.