

Registration number: 08811254

British Gas Energy Procurement Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



British Gas Energy Procurement Limited

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British Gas Energy Procurement Limited

Strategic Report for the Year Ended 31 December 2018

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

Principal activities

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

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 was incorporated on 11 December 2013 and is a wholly owned subsidiary of British Gas Trading Limited.

Since 31 December 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 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 principal risks and uncertainties are integrated with those of the Centrica plc Group (the 'Group') and are not managed separately. The principal risk and uncertainties of the Group, which include those of the Company, are disclosed on pages 41-50 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

Exit from the European Union

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

Key performance indicators (KPIs)

The results and dividends of the Company are shown in the Directors' Report on page 3. The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 18-19 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

British Gas Energy Procurement Limited

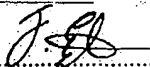
Strategic Report for the Year Ended 31 December 2018 (continued)

Future developments

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

The Centrica plc Group (the 'Group') continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company.

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

 J. ELLIOT

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

Company registered in England and Wales, No. 08811254

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire

SL4 5GD

British Gas Energy Procurement Limited

Directors' Report for the Year Ended 31 December 2018

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

Directors of the Company

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

S J Buck (resigned 24 January 2018)

M S Hodges (resigned 28 February 2019)

G Barbaro

S Sambhi

R Roy

I E Ronald (appointed 24 January 2018)

The following director was appointed after the year end:

M D Kirwan (appointed 1 April 2019)

Results and dividends

The results of the Company are set out on page 9. The profit for the financial year ended 31 December 2018 is £34.5m (2017: profit £33.4m). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2017: £nil).

Future developments

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

Going concern

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

Directors' and officers' liability

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

British Gas Energy Procurement Limited

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

Statement of Directors' Responsibilities for the Year Ended 31 December 2017

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

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

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

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

Disclosure of information to the auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

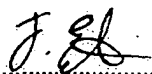
British Gas Energy Procurement Limited

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

Auditors

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

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

 J. ELLIOT

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

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

British Gas Energy Procurement Limited

Independent auditors' report to the members of British Gas Energy Procurement Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of the 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 ('FRS 101'); 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 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions related to going concern

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

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

We have nothing to report in respect of these matters.

British Gas Energy Procurement Limited

Independent auditors' report to the members of British Gas Energy Procurement Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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.

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 Energy Procurement Limited

Independent auditors' report to the members of British Gas Energy Procurement Limited (continued)

Matters on which we are required to report by exception

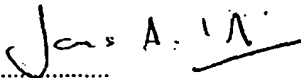
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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
- 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.



James Leigh FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
EC4A 3BZ

27 June 2019

British Gas Energy Procurement Limited

Income Statement for the Year Ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue	4	4,025.4	4,049.4
Cost of sales	5	<u>(3,999.4)</u>	<u>(4,023.8)</u>
Gross profit		<u>26.0</u>	<u>25.6</u>
Operating profit		26.0	25.6
Finance income	7	<u>16.6</u>	<u>15.7</u>
Profit before income tax		42.6	41.3
Income tax expense	9	<u>(8.1)</u>	<u>(7.9)</u>
Profit for the year		<u>34.5</u>	<u>33.4</u>

The above results were derived from continuing operations.

British Gas Energy Procurement Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the year		<u>34.5</u>	<u>33.4</u>
Total comprehensive income for the year		<u>34.5</u>	<u>33.4</u>

British Gas Energy Procurement Limited

Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £ m	31 December 2017 £ m
Non-current assets			
Derivative financial instruments	16	95.1	98.5
		<u>95.1</u>	<u>98.5</u>
Current assets			
Trade and other receivables	10	434.7	418.3
Inventories	11	198.8	225.3
Derivative financial instruments	16	182.7	264.3
		<u>816.2</u>	<u>907.9</u>
Total assets		<u>911.3</u>	<u>1,006.4</u>
Current liabilities			
Trade and other payables	12	(506.3)	(550.9)
Derivative financial instruments	16	(182.7)	(264.3)
		<u>(689.0)</u>	<u>(815.2)</u>
Non-current liabilities			
Derivative financial instruments	16	(95.1)	(98.5)
		<u>(95.1)</u>	<u>(98.5)</u>
Total liabilities		<u>(784.1)</u>	<u>(913.7)</u>
Net assets		<u>127.2</u>	<u>92.7</u>
Equity			
Called up share capital	13	-	-
Retained earnings	13	127.2	92.7
Total equity		<u>127.2</u>	<u>92.7</u>

The Financial Statements on pages 9 to 26 were approved and authorised for issue by the Board of Directors on 27 June 2019 and signed on its behalf by:



I E Ronald

Director

Company number 08811254

British Gas Energy Procurement Limited

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

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 January 2018	-	92.7	92.7
Profit for the year	-	34.5	34.5
Other comprehensive income	-	-	-
At 31 December 2018	<u>-</u>	<u>127.2</u>	<u>127.2</u>

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 January 2017	-	59.3	59.3
Profit for the year	-	33.4	33.4
Other comprehensive income	-	-	-
At 31 December 2017	<u>-</u>	<u>92.7</u>	<u>92.7</u>

British Gas Energy Procurement Limited

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

1 General information

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

The registered office and principal place of business is: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.

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

2 Accounting policies

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.

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

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

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

IFRS 15: 'Revenue from contracts with customers'

The Company adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, resulting in no adjustments to amounts previously recognised in the financial statements. Revenue generated from sale of renewable obligation certificates and services fees is in scope of IFRS 15. Energy supply to business customers is also recognised within revenue but is in scope of IFRS 9 as the contracts to sell non-financial items can be settled net.

IFRS 9: 'Financial Instruments'

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

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI). The Company's financial assets are derivative financial instruments and amounts owed by Group undertakings. No changes to the classification of financial assets were made following the adoption of IFRS 9.

British Gas Energy Procurement Limited

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

2 Accounting policies (continued)

Impairment

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

Hedge accounting

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

Transition approach

In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

The Company has applied the following practical expedients on initial application:

- IFRS 15:C5(a)(i, ii): Exemption from the requirement to apply the standard to contracts that begin and end within the same annual reporting period and contracts completed at the beginning of the earliest period presented;
- IFRS 15:C5(b): Use of the transaction price at the date the contract was completed for completed contracts with variable consideration rather than estimating variable consideration amounts in the comparative reporting periods.

None of the above practical expedients had a material effect on the Financial Statements.

Summary of disclosure exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

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

- certain disclosures required by 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.

British Gas Energy Procurement Limited

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

2 Accounting policies (continued)

Measurement convention

The financial statements have been prepared on the historical cost basis except for: derivative financial instruments that have been measured at fair value.

The Financial Statements are presented in pound sterling (with all values rounded to the nearest hundred thousand pounds (£100,000) except when otherwise indicated).

Going concern

The Financial Statements have been prepared using the going concern basis of accounting.

Summary of significant accounting policies and key accounting estimates

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

Revenue recognition

The Company adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. Revenue generated from sales of renewable obligation certificates and rendering of services has been recognised in line with IFRS 15 criteria. This resulted in no changes to amounts previously recognised in the financial statements.

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.

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. It also includes employee recharges from BGTL.

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.

British Gas Energy Procurement Limited

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

2 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are, 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.

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

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

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

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

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.

British Gas Energy Procurement Limited

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

2 Accounting policies (continued)

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

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

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method. If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

Share capital

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

Cash and cash equivalents

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

Loans and other borrowings

All interest-bearing and interest free loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, these financial instruments are measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

British Gas Energy Procurement Limited

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

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, power and oil are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 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 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 foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2018 of the ultimate controlling party being Centrica plc, in the Strategic Report – Principal Risks and Uncertainties on pages 41 to 51 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. 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. 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 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.

British Gas Energy Procurement Limited

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

3 Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements

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.

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

Flow Agreement

Within the flow agreement between the Company and BGTL, the Company is deemed to be acting as principal given its role performing rebalancing 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.

4 Revenue

	Year ended 31 December 2018 Revenue £m	Year ended 31 December 2017 Revenue £m
Sale of goods: Commodity (IFRS 9)	3,313.8	3,278.5
Sale of goods: Renewable Obligation Certificates (IFRS 15)	484.0	434.5
Unrealised gain on revaluation of the flow agreement with BGTL (IFRS 9)	185.6	294.4
Rendering of services: Service fee under the flow agreement with BGTL (IFRS 15)	42.0	42.0
Total revenue	4,025.4	4,049.4

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

British Gas Energy Procurement Limited

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

5 Analysis of costs by nature

	Year ended 31 December 2018	Year ended 31 December 2017
	Cost of sales	Cost of sales
	£ m	£ m
Commodities costs	(3,316.5)	(3,282.0)
Commodities costs - Renewable Obligation Certificates	(484.0)	(434.5)
Operational costs	(13.3)	(12.9)
Unrealised loss on revaluation of derivatives	(185.6)	(294.4)
Total costs by nature	(3,999.4)	(4,023.8)

6 Employees' costs

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

The average number of persons employed by the Company (including Directors) during the year, was nil (2017: nil). Employee costs for the Company are recharged via intra-group recharges from BGTL and are recognised in the cost of sales.

7 Finance income

	Year ended 31 December 2018	Year ended 31 December 2017
	£ m	£ m
Interest income from amounts owed by Group undertakings	16.6	15.7

8 Auditors' remuneration

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

Auditors' remuneration totalling £75,000 (2017: £75,000) relates to fees for the audit of the financial statements of the Company.

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

British Gas Energy Procurement Limited

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

9 Income tax

Tax charged in the Income Statement

	Year ended 31 December 2018 £ m	Year ended 31 December 2017 £ m
Current taxation		
UK corporation tax at 19.00% (2017: 19.25%)	<u>8.1</u>	<u>7.9</u>

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 2018 £ m	Year ended 31 December 2017 £ m
Profit before tax	<u>42.6</u>	<u>41.3</u>
Tax expense at standard UK tax rate 19.00% (2017: 19.25%)	8.1	7.9
Effects of:		
Increase (decrease) arising from group relief tax reconciliation	1.3	2.0
Increase (decrease) from transfer pricing adjustments	<u>(1.3)</u>	<u>(2.0)</u>
Total income tax expense	<u>8.1</u>	<u>7.9</u>

The main rate of corporation tax for the year to 31 December 2018 was 19.00% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020.

British Gas Energy Procurement Limited

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

10 Trade and other receivables

	At 31 December 2018 Current £ m	At 31 December 2017 Current £ m
Amounts owed by Group undertakings	434.7	418.3
	<u>434.7</u>	<u>418.3</u>

Included within the amounts owed by Group undertakings disclosed above is £434.7m (2017: £418.3m) that bears interest rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72 and 4.13% per annum during 2018 (2017: 3.66 and 3.86%). All amounts owed by Group undertakings are unsecured and repayable on demand.

11 Inventories

	At 31 December 2018 £ m	At 31 December 2017 £ m
Renewable Obligation Certificates	198.8	225.3

Renewable Obligation Certificates recognised as an expense in the year amounted to £484m (2017: £434.5m) 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 (2017: no significant difference).

12 Trade and other payables

	At 31 December 2018 Current £ m	At 31 December 2017 Current £ m
Accrued expenses	(357.2)	(293.3)
Amounts owed to Group undertakings	(149.1)	(257.6)
	<u>(506.3)</u>	<u>(550.9)</u>

Included within the amounts owed by Group undertakings disclosed above is £141.0m (2017: £257.6m) which are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

13 Capital and reserves

Share capital

Allotted, called up and fully paid shares

	31 December 2018		31 December 2017	
	No.	£	No.	£
1 ordinary shares of £1 each (2017: 1)	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

British Gas Energy Procurement Limited

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

13 Capital and reserves (continued)

Retained earnings

The balance classified as retained earnings includes the profits and losses realised by the Company in previous periods that were not distributed to the shareholders of the Company at the balance sheet date.

14 Operating leases

The Company has entered into long-term arrangements with renewable providers to purchase physical power and Renewable Obligation 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 (2017: nil). Payments made for physical power are charged to the 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 £59,400,000 (2017: £63,300,000).

15 Other commitments and contingencies

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

	At 31 December 2018 £ m	At 31 December 2017 £ m (i)
Commodity purchase contracts	16,178.4	18,397.2
Other commitments	414.4	614.9
	<u>16,592.8</u>	<u>19,012.1</u>

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

	At 31 December 2018 £ m	At 31 December 2017 £ m (i)
Within one year	3,882.9	3,655.6
Between one and five years	8,821.8	9,181.5
After five years	<u>3,473.7</u>	<u>5,560.1</u>
	<u>16,178.4</u>	<u>18,397.2</u>

(i) The 31 December 2017 balances for commodity purchase contracts were restated to better reflect the allocation of power purchase agreement commitments between different entities of the Centrica group. As such, the commodity purchase contracts commitment for the Company decreased by £1,438.2m.

Other financial commitments

The total amount of other financial commitments not provided in the Financial Statements was £414.4m (2017: £614.9m). This related to commitments to purchase Renewable Obligation Certificates.

British Gas Energy Procurement Limited

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

16 Financial instruments at fair value

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.

Determination of fair values and fair value hierarchy

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

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

Financial instruments carried at fair value

Fair value hierarchy

	<i>Fair value hierarchy</i>			
31 December 2018	Fair value and carrying value £ m	Level 1 £ m	Level 2 £ m	Level 3 £ m
Derivative financial assets - held for trading under IAS 39				
Energy derivatives - for procurement/optimisation	<u>277.8</u>	<u>-</u>	<u>164.5</u>	<u>113.3</u>
Total financial assets at fair value through profit and loss	<u>277.8</u>	<u>-</u>	<u>164.5</u>	<u>113.3</u>
Derivative financial liabilities - held for trading under IAS 39				
Flow agreement	<u>(277.8)</u>	<u>-</u>	<u>(50.2)</u>	<u>(227.6)</u>
Total financial liabilities at fair value through profit and loss	<u>(277.8)</u>	<u>-</u>	<u>(50.2)</u>	<u>(227.6)</u>
Total financial instruments at fair value	<u>-</u>	<u>-</u>	<u>114.3</u>	<u>(114.3)</u>

British Gas Energy Procurement Limited

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

16 Financial instruments at fair value (continued)

Financial instruments carried at fair value

31 December 2017	Fair value and carrying value £ m	Fair value hierarchy		
		Level 1 £ m	Level 2 £ m	Level 3 £ m
Derivative financial assets - held for trading under IAS 39				
Energy derivatives – for procurement/optimisation	362.8	-	298.8	64.0
Total financial assets at fair value through profit and loss	362.8	-	298.8	64.0
Derivative financial liabilities - held for trading under IAS 39				
Energy derivatives – for procurement/optimisation	-	-	-	-
Flow agreement	(362.8)	-	-	(362.8)
Total financial liabilities at fair value through profit or loss	(362.8)	-	-	(362.8)
Total financial instruments at fair value	-	-	298.8	(298.8)

Level 3 fair value reconciliation

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

	2018 Instruments at fair value through profit & loss £ m	2017 Instruments at fair value through profit & loss £ m
Level 3 financial instruments		
1 January	(298.8)	(584.2)
Total realised and unrealised gains/(losses):		
Recognised in the income statement	184.5	285.4
31 December	(114.3)	(298.8)

British Gas Energy Procurement Limited

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

16 Financial instruments at fair value (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 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:

	2018 £m	2017 £m
Net deferred (gains)/losses		
1 January	(33.5)	(33.8)
Net (gains) / losses deferred on new transactions	-	-
Recognised in the Income Statement during the year	5.6	0.3
31 December	(27.9)	(33.5)

17 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.