

**Registered Number: 02877398**

**Centrica Energy Limited**  
**(formerly known as Accord Energy Limited)**

**Annual report and Financial Statements**  
**For the year ended 31 December 2010**

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## **Centrica Energy Limited (formerly known as Accord Energy Limited)**

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# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Directors' report for the year ended 31 December 2010**

The Directors present their report and the audited financial statements of Centrica Energy Limited (formerly known as Accord Energy Limited) ("the Company") for the year ended 31 December 2010

### **Principal activities**

The principal activity of the Company is the wholesale trading of physical energy products and the trading of energy related derivatives. The main products traded in the year were natural gas, electricity, emissions certificates, oil and coal in the UK and Europe.

### **Business review**

The level of business during the year and the financial position of the Company at the year-end were in line with expectations reflecting the difficult trading conditions in 2010.

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital. A Special Resolution was passed by the Company's sole member on 18 May 2010 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association.

### **Future developments**

The Directors expect the Company to continue to trade physical energy products and energy related derivatives for the foreseeable future.

### **Financial risk management**

The Directors have established objectives for profitable development of the company and policies for managing financial risks. These objectives and policies are reviewed annually.

### **Key performance indicators**

The Directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are discussed on pages 8-9 of the 2010 annual report and accounts of the Group which does not form part of this report.

### **Results and dividends**

The results of the Company are set out on page 5. The loss on ordinary activities after taxation for the year ended 31 December 2010 is £4.5 million (2009: a profit of £12.8 million). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2009: £nil).

### **Financial position**

The financial position of the Company is presented in the Balance Sheet on page 6. Shareholder funds at 31 December 2010 were £238.7 million (2009: £243.0m), comprising fixed asset investments of £0.9 million (2009: £0.9 million) and net current assets of £237.9 million (2009: £242.2 million).

### **Directors**

The following served as Directors during the year and up to the date of signing this report:

Mr V M Hanafin

Mr A D Le Poidevin

Mr A Netemeyer (appointed 18 November 2010)

Mr I Wood (resigned 18 November 2010)

### **Directors' and officers' liability**

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

# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Directors' report for the year ended 31 December 2010 (continued)**

### **Post balance sheet events**

On 1 February 2011, the Company changed its name from Accord Energy Limited to Centrica Energy Limited. There is no financial effect of this change.

### **Creditor payment policy**

It is the Company's policy to pay all of its creditors in accordance with the policies set out below.

- (i) agree the terms of payment in advance with the supplier,
- (ii) ensure that suppliers are aware of the terms of payment, and
- (iii) pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2010 was 10 days (2009: 13 days).

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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 the 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.

## **Centrica Energy Limited (formerly known as Accord Energy Limited)**

### **Directors' report for the year ended 31 December 2010 (continued)**

#### **Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the Board on 20 June 2011



For and on behalf of Centrica Secretaries Limited  
Company Secretary

20 June 2011

Company registered in England and Wales No 02877398

Registered office  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Independent auditors' report to the members of Centrica Energy Limited (formerly known as Accord Energy Limited)**

We have audited the financial statements of Centrica Energy Limited (formerly known as Accord Energy Limited) for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 2 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). 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.

### **Scope of the audit of the financial statements**

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.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

John Maitland (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

20 June 2011

## Centrica Energy Limited (formerly known as Accord Energy Limited)

### Profit and Loss Account

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net trading income	2	16,858	51,564
Administrative expenses		<u>(19,583)</u>	<u>(26,982)</u>
<b>Operating (loss) / profit</b>	3	<b>(2,725)</b>	<b>24,582</b>
Net interest payable	5	<u>(1,877)</u>	<u>(6,703)</u>
<b>(Loss) / profit on ordinary activities before taxation</b>		<b>(4,602)</b>	<b>17,879</b>
Tax on (loss) / profit on ordinary activities	6	<u>110</u>	<u>(5,072)</u>
<b>(Loss) / profit on ordinary activities after taxation for the financial year</b>		<b><u>(4,492)</u></b>	<b><u>12,807</u></b>
<b>(Loss) / profit transferred to reserves</b>	12	<b><u>(4,492)</u></b>	<b><u>12,807</u></b>

All gains or losses for the current and prior years have been derived from continuing operations

The Company has no recognised gains and losses other than the profit for the current and prior years stated above and therefore no separate statement of total recognised gains and losses has been presented

The accompanying notes on pages 7 to 20 form part of these financial statements

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Balance Sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Fixed Assets</b>			
Tangible fixed assets	7	-	-
Investments	8	850	850
		<u>850</u>	<u>850</u>
<b>Current Assets</b>			
Debtors (amounts falling due within one year)	9	1,687,903	3,195,359
Cash at bank and in hand		8,925	14,459
		<u>1,696,828</u>	<u>3,209,818</u>
<b>Creditors (amounts falling due within one year)</b>	10	(1,458,952)	(2,967,653)
<b>Net current assets</b>		<u>237,876</u>	<u>242,165</u>
<b>Total assets less current liabilities</b>		<u>238,726</u>	<u>243,015</u>
<b>Net assets</b>		<u><u>238,726</u></u>	<u><u>243,015</u></u>
<b>Capital and reserves</b>			
Called up share capital	11	50	50
Other reserves	12	868	665
Profit and loss account	12	237,808	242,300
<b>Equity Shareholders' Funds</b>	13	<u><u>238,726</u></u>	<u><u>243,015</u></u>

The financial statements on pages 5 to 20 were approved and authorised for issue by the Board of Directors on 20 June 2011 and were signed on its behalf by



Andrew Le Poidevin  
Director



# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Notes to the financial statements for the year ended 31 December 2010**

### **1 Principal accounting policies**

These financial statements have been prepared on the going concern basis, in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards. The principal accounting policies are set out below.

#### **Exemptions**

The Company is a wholly-owned subsidiary of GB Gas Holdings Limited and is included in the consolidated financial statements of Centrica plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The Company is a wholly-owned subsidiary of Centrica plc and is included in the consolidated financial statements of Centrica plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related-party transactions with entities that are part of the Centrica plc group.

#### **Turnover**

Turnover, which excludes value added tax, represents the invoiced sales of delivered energy financial derivative contracts for gas, electricity, emissions, coal and oil to counterparties plus an estimate of sales not yet invoiced. Movements in the valuation of energy financial derivative contracts are also included within turnover.

#### **Cost of sales**

Cost of sales, which excludes value added tax, represents the invoiced purchases of delivered energy financial derivative contracts for gas, electricity, emissions, coal and oil to counterparties plus an estimate of purchases not yet invoiced.

#### **Net trading income**

Net trading income comprises Turnover less Cost of sales for the year.

#### **Derivative financial instruments**

A financial instrument is defined in FRS 25 as any contract which gives rise to a financial asset of one entity and a financial liability of another entity. Derivative financial instruments 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. Energy trading financial derivatives and open positions on physical energy trading contracts are fair valued using externally derived market prices or to the extent that market prices are not available, commodity prices using assumptions based on market expectations and reasonably reflected factors that market participants would consider in setting a price. Such contracts are fair valued using the bid or offer price, adjusted for credit risk and discounted to determine its present value. Movements in the valuation of derivative contracts are included within net trading income. The Company has a policy of offsetting financial assets and financial liabilities only when both a legal right to set-off exists and the intention to net settle the financial instruments is present.

# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Notes to the financial statements for the year ended 31 December 2010 (continued)**

### **1 Principal accounting policies (continued)**

#### **Accruals, trade debtors and trade creditors**

Accrued income and expenses represent delivered commodity that has not yet been invoiced. Commodity delivered in the month is invoiced and paid in the following month.

Trade debtors and trade creditors are recognised initially at original invoice amount. Trade debtors are stated after an allowance for any uncollectable amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified. Trade debtors and trade creditors are presented net where there is a contractual right to set-off and the balances are settled net in practice.

#### **Tangible fixed assets**

Tangible fixed assets are stated at purchase cost together with any incidental costs of acquisition less accumulated depreciation. Depreciation is calculated on a straight-line basis at rates sufficient to write off the cost of individual assets, less estimated residual value, over their estimated useful lives. The depreciation periods for the principal categories of assets are Fixtures and fittings (5 years) and Computer and office equipment (5 years).

#### **Fixed asset investments**

Fixed asset investments are stated at cost less any provisions for impairment.

#### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Income and expenses in foreign currencies are translated into pounds sterling at rates of exchange prevailing at the time of the transactions. Exchange differences on monetary assets and liabilities are taken to the Profit and Loss Account. The pounds sterling translated equivalent of delivered energy financial derivative contracts and movements in the valuation of energy financial derivative contracts denominated in foreign currencies are included within net trading income.

#### **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 substantially enacted by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 1 Principal accounting policies (continued)

#### Pensions and other retirement benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The Company is unable to identify its share of the underlying assets and liabilities in these schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Group as a whole.

#### Share schemes

The Company's employees participate in group operated employee share schemes, as detailed in the Remuneration Report on pages 50 to 63 of the Centrica plc Annual Report and Accounts 2010 and in note 35 of the Centrica plc Annual Report and Accounts 2010, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows

LTIS awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS EPS awards after 2005	Market value on the date of grant
LTIS TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS, RSS and ESPP	Market value on the date of grant

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 2 Net trading income

	2010 £'000	2009 £'000
Turnover	25,560,260	26,692,678
Cost of sales	(25,543,402)	(26,641,114)
Net trading income	<u>16,858</u>	<u>51,564</u>

### 3 Operating loss

The operating loss is stated after charging/(crediting)

	2010 £'000	2009 £'000
Auditor's remuneration	143	145
Depreciation	-	1
Foreign exchange (gains) / losses	(1,127)	1,521
	<u></u>	<u></u>

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory accounts of Centrica Energy Limited (formerly known as Accord Energy Limited) and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Centrica Energy Limited (formerly known as Accord Energy Limited)

### 4 Directors and employees

#### (a) Directors' emoluments

None of the Directors received any remuneration in respect of their services to the Company during the year

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 4 Directors and employees (continued)

#### (b) Employee information

The average number of personnel directly employed by the Company, not including secondees from the shareholder companies, during the year was 28 (2009 35). All personnel are based in the United Kingdom. Staff costs for these employees were as follows:

	2010 £'000	2009 £'000
Wages and salaries	2,876	3,725
Social security costs	(41)	888
Other pension and retirement benefits costs	1,291	565
Long Term Incentive Scheme	73	-
Sharesave Scheme	16	18
Share Incentive Plan	7	7
Share Award Scheme	28	28
Restricted Share Scheme	79	107
	<u>4,329</u>	<u>5,338</u>

### 5 Net interest payable

	2010 £'000	2009 £'000
Interest (payable) to group undertakings	(2,759)	(8,837)
Interest receivable from third parties	919	2,157
Interest (payable) to third parties	<u>(37)</u>	<u>(23)</u>
Net interest (payable)	<u>(1,877)</u>	<u>(6,703)</u>

Interest payable to/receivable from third parties relates mainly to interest on cash collateral received and paid by the Company under trading arrangements.

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 6 Taxation on loss on ordinary activities

#### (a) Analysis of tax change in the year

The tax change comprises

	2010 £'000	2009 £'000
<b>Current tax</b>		
United Kingdom corporation tax at 28% (2009 28%)	-	5,009
Adjustments in respect of prior years	4	61
<b>Total current tax</b>	<b>4</b>	<b>5,070</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(61)	2
Adjustments in respect of prior years	(53)	-
<b>Total tax on (loss) / profit on ordinary activities</b>	<b>(110)</b>	<b>5,072</b>

A number of changes to the UK corporation tax system were announced in the March 2011 Budget Statement. The main rate of corporation tax reduced from 28% to 26% from 1 April 2011 and was substantively enacted on 29 March 2011. An initial reduction of 1% to 27% effective from 1 April 2011 was enacted by Finance (No 2) Act 2010 and is therefore taken into account in these financial statements. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014, and the reduction to 25% from 1 April 2012 is expected to be enacted by Finance Act 2011. Beyond the reduction to 27%, the changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The impact of these changes on the deferred tax balance is not expected to be material.

#### (b) Factors affecting the tax charge for the year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2010 £'000	2009 £'000
(Loss) / profit on ordinary activities before tax	(4,602)	17,879
Tax on (loss) / profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28%)	(1,289)	5,006
Effects of		
Depreciation in excess of capital allowances	(1)	(1)
Other timing differences	2	-
Permanent differences	(14)	-
Group relief received for nil consideration	1,299	-
UK UK transfer pricing adjustment	3	4
Adjustments to tax charge in respect of previous years	4	61
<b>Current tax charge for the year</b>	<b>4</b>	<b>5,070</b>

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 7 Tangible fixed assets

	£'000
<b>Cost</b>	
Balance at 1 January 2010	158
Additions	-
Balance at 31 December 2010	<u>158</u>
<b>Depreciation</b>	
Balance at 1 January 2010	158
Charge for the year	-
Balance at 31 December 2010	<u>158</u>
<b>Net book value</b>	
As at 31 December 2010	<u>-</u>
As at 31 December 2009	<u>-</u>

Tangible fixed assets comprise fixtures and fittings, and computer and office equipment

### 8 Fixed asset investments

#### Subsidiary undertakings

	2010 £'000	2009 £'000
Cost and carrying value	<u>850</u>	<u>850</u>

	Country of registration or incorporation	Class of shares held	Company holding (%)
Centrica Energy (Trading) Limited (formerly known as Accord Energy (Trading) Limited)	England	Ordinary	100

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 9 Debtors (amounts falling due within one year)

	2010 £'000	2009 £'000
Derivative financial instruments (i)	710,472	1,646,820
Deferred corporation tax	119	5
Amounts owed by group undertakings (ii)	680,185	779,487
Taxation and social security	1,826	-
Other debtors and prepayments (iii)	103,609	497,650
Accrued income	191,692	271,397
	<u>1,687,903</u>	<u>3,195,359</u>

- (i) Derivative financial instruments include £276,826,000 (2009 £1,329,693,000) of amounts owed by Group undertakings
- (ii) The amounts receivable from Group undertakings include £127,184,000 (2009 £nil) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.32 and 2.11% per annum during 2010. The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.
- (iii) Other debtors and prepayments are made up of margin payments of £26,800,000 (2009 £454,954,000), a VAT debtor of £25,264,000 (2009 £16,548,000), futures broker balances of £16,589,000 (2009 £12,897,000), prepayments of nil (2009 £140,000) and sundry debtors of £34,956,000 (2009 £13,111,000).

### Deferred corporation tax

The deferred corporation tax asset at 27% (2009 28%) is analysed as follows

	Amounts provided	
	2010 £'000	2009 £'000
Accelerated capital allowances	4	5
Other timing differences	115	-
	<u>119</u>	<u>5</u>

There are no amounts unprovided (2009 nil)



# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 10 Creditors (amounts falling due within one year)

	2010 £'000	2009 £'000
Trade creditors	1,470	53,097
Derivative financial instruments (i)	741,453	1,606,770
Amounts owed to group undertakings (ii)	251,000	721,934
Taxation and social security	146	1,636
Other creditors (iii)	10,096	12,010
Accruals and deferred income	454,787	572,206
	<u>1,458,952</u>	<u>2,967,653</u>

(i) Derivative financial instruments include £372,316,000 (2009 £106,807,000) of amounts owed to Group undertakings.

(ii) The amounts payable to Group undertakings include £nil (2009 £334,122,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.32 and 2.11% per annum during 2010. The other amounts payable to Group undertakings are interest-free. All amounts payable to Group undertakings are unsecured and repayable on demand.

(iii) Other creditors include cash collateral received amounts of £168,000 (2009 £nil).

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 11 Called up share capital

	2010 £	2009 £
<b>Authorised share capital</b>		
NIL (2009 50,000 ordinary shares of £1 each)	-	50,000
NIL (2009 196 participating preference shares of £1 each)	-	196
NIL (2009 999,753 unclassified shares of £1 each)	-	999,753
	<u>-</u>	<u>1,049,949</u>
	2010 £	2009 £
<b>Allotted and fully paid share capital</b>		
50,000 ordinary shares of £1 each	50,000	50,000
196 participating preference shares of £1 each	196	196
	<u>50,196</u>	<u>50,196</u>

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital. A Special Resolution was passed by the Company's sole member on 18 May 2010 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association.

### 12 Reserves

	£'000
<b>Other reserves</b>	
As at 1 January 2010	665
Share based payment	<u>203</u>
As at 31 December 2010	<u>868</u>
<b>Profit and loss account</b>	
As at 1 January 2010	242,300
Retained loss for the financial year	<u>(4,492)</u>
As at 31 December 2010	<u>237,808</u>

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 13 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Retained (loss) / profit for the financial year	(4,492)	12,807
Share-based payment	203	160
Net addition to shareholders funds	(4,289)	12,967
Opening shareholders funds	243,015	230,048
Closing shareholders' funds	238,726	243,015

### 14 Financial instruments

#### (i) Risks

Exposure to commodity price risk, counterparty credit risk, interest rate risk, currency risk and liquidity risk arises from the Company's proprietary trading business. Derivative financial instruments are entered into for trading purposes. The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk is the risk that changes to gas and electricity period prices would impact the net fair value of commodity contracts held for trading.

The Company's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting in the short-term from changes in market prices or differences between buying and selling prices. The Company conducts its trading activities over the counter and through exchanges in the UK, and parts of the rest of Europe. The Company is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Company sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Company's proprietary energy trading activities. The VaR used measures the estimated potential loss for a 95% confidence level over a one day holding period. The holding period used is based on market liquidity and the number of days the Company would expect it to take to close off a trading position.

The VaR, before taxation, associated with the Company's proprietary energy trading activities at 31 December 2010 was £0.4 million (2009: £1.6 million). The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2010 is disclosed in part (ii) of this note.

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 14 Financial instruments (continued)

Liquidity risk is the risk that the Company will not have sufficient funds to meet liabilities. Cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly to ensure sufficient financial headroom exists for at least a 12 month period. The Company finances its operations through a combination of cash flow from operations and financing received from other Centrica Group companies.

Counterparty credit risk is the risk that the financial benefits of the contracts with a specific counterparty will be lost if a counterparty defaults on their contractual obligations. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists. The exposure to credit risk, without taking into account collateral received, at 31 December 2010 was £1,643,441,000 (2009 £3,201,592,000).

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The majority of significant exposures are with A-rated counterparties or better, or with other Centrica Group companies. A credit risk adjustment is made to the fair values of financial instruments in accordance with the credit rating of the counterparty. The Company employs a variety of other methods to mitigate credit risk including margining, various forms of bank and Parent Company Guarantees and Letters of Credit. The Company also uses master netting agreements or netting provisions to reduce credit risk and net settles payments with counterparties where master netting agreements are held. At 31 December 2010 the Company had received £168,000 (2009 £nil) of cash collateral amounts principally under margin calls to cover exposure to mark to market positions on derivative contracts and had pledged £26,800,000 (2009 £454,954,000).

Currency risk is the risk that movements in foreign currency exchange rates will result in exchange gains and losses that are taken to the Profit and Loss Account. Currency risk arises when future commodity trading contracts or recognised assets or liabilities are denominated in a currency that is not the functional currency of the Company. The Company manages its foreign exchange risk by entering into forward contracts transacted with Group Treasury.

Interest rate risk and liquidity risk are managed centrally by Centrica plc. No hedges of such risks are undertaken by this Company.

#### (ii) Fair values

The fair values of the Company's financial instruments together with the carrying amounts included in the balance sheet are analysed below.

#### Primary financial assets

	2010	2009
	Carrying value/ Fair value £'000	Carrying value/ Fair value £'000
Amounts owed by group undertakings	680,185	777,954
Other debtors	78,345	480,962
Accrued income	191,692	271,397
Cash and cash equivalents	8,925	14,459
	<u>959,147</u>	<u>1,544,772</u>

# Centrica Energy Limited (formerly known as Accord Energy Limited)

## Notes to the financial statements for the year ended 31 December 2010 (continued)

### 14 Financial instruments (continued)

#### Primary financial liabilities

	2010 Carrying value/ Fair value £'000	2009 Carrying value/ Fair value £'000
Trade creditors	1,470	53,097
Amounts owed to group undertakings	251,000	721,934
Accruals	454,787	572,596
Other creditors	10,096	12,010
	<u>717,353</u>	<u>1,359,637</u>

#### Derivative financial instruments

	2010 Carrying value/ Fair value £'000	2009 Carrying value/ Fair value £'000
Derivative financial instruments held for trading		
Energy derivatives - assets	710,472	1,646,820
Energy derivatives - liabilities	(741,453)	(1,606,770)
	<u>(30,981)</u>	<u>40,050</u>

Fair value is equivalent to carrying value

#### (iii) Methods and assumptions

The values of commodity contracts are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Management consider the UK markets for gas, electricity and emissions to be active for up to two years, with reliable broker quotes and published prices available for this period. In the active period financial instruments are valued against forward market prices available at 31 December 2010. Outside the active period financial instruments are valued using commodity prices derived using assumptions that are based on market expectations and reasonably reflect all factors that market participants would consider in setting a price. The total change in fair value estimated using valuation techniques that was recognised in the Profit and Loss Account during the year amounts to a loss of £73,334,000 (2009 loss of £26,465,000).

The most significant assumptions incorporated in the valuation techniques used to value commodity contracts at 31 December 2010 are as follows:

- Commodity prices are based on views held by a cross-section of independent external market experts
- It is assumed that markets would allow the sale or purchase of each commodity in equivalent volumes to those contracted at the forecast market price
- Day 1 gains and losses are only recognised in the Profit and Loss Account to the extent that the valuation is based on observable market prices

Significant terms and conditions for the majority of energy forwards, futures, swaps and options include a contractual right of set-off, the practice of net settling and settlement occurring on delivery.

# **Centrica Energy Limited (formerly known as Accord Energy Limited)**

## **Notes to the financial statements for the year ended 31 December 2010 (continued)**

### **15 Pensions**

The majority of the Company's UK employees as at 31 December 2010 were members of two of the three main schemes in the Centrica plc Group, the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Management Pension Scheme

These are defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated as defined contribution schemes. The aggregate contributions to the schemes during the year were £1.3 million (2009: £0.6 million). The amount outstanding at the balance sheet date was £nil (2009: £nil). The latest actuarial valuation of the schemes, updated for the purposes of FRS17, show a total deficit of £97 million, £70 million net of deferred tax (2009: a total deficit of £367 million, £264 million net of deferred tax). These pension schemes are included on a consolidated basis within the Group accounts of Centrica plc as prepared under IFRS.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on funding valuations carried out at least triennially, the last of which was as at 31 March 2009.

### **16 Share schemes**

The Group has a number of employee share schemes, as detailed on Pages 54-56 and 125-128 of the Centrica plc Annual Report and Accounts 2010, under which it makes equity-settled share-based payments to certain employees. The impact on the results and net assets of the Company is not material.

### **17 Ultimate parent undertaking**

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

The Company's ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements can be obtained from [www.centrica.com](http://www.centrica.com).