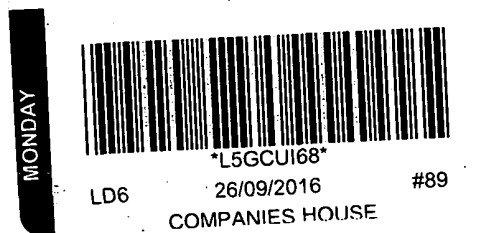


Registration number: 02571241

Centrica SHB Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015



Centrica SHB Limited

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Centrica SHB Limited

Strategic Report for the Year Ended 31 December 2015

The Directors present the Strategic Report for Centrica SHB Limited (the 'Company') for the year ended 31 December 2015.

Review of the business

The Company operates under a capacity tolling agreement with British Gas Trading Limited who are responsible for energy procurement for the Centrica plc group ("the Group").

In March 2015 a decision was made to maintain Phase 1 in a state of preservation from April 2015 to March 2017. This was a result of market conditions. Since this decision was made, Phase 1 has secured investment for a major overhaul in 2018 and has been awarded a Supplementary Balancing Reserve ("SBR") contract for Winter 2016/17. Phase 2 has continued to operate throughout 2015.

Market conditions continued to be challenging for gas-fired power stations, however they did improve slightly in 2015. Whilst UK Clean Spark Spreads remained low, the competitive position of gas-fired generation versus coal improved as higher carbon prices allowed some switching to gas rather than coal. Despite this, baseload power generation has still predominantly been provided by coal while installed capacity from renewable sources has also remained, leaving gas to operate predominantly in peak periods of demand.

The future market for gas fired power generation is expected to improve with the closure of a number of coal-fired stations in 2016 tightening the system reserve margins and creating an increased risk to future security of electricity supplies. The Government plans to close all coal-fired power stations by 2025 and restrict use by 2023. The Government has now conducted two Capacity Market Auctions aimed at addressing these concerns, although they acknowledge that these auctions have not procured sufficient capacity. In March 2016, Government published a consultation on proposals to increase the procurement volumes and bring forward delivery of the Capacity Market to October 2017, which will provide further support to plant economics. South Humber Bank power station was successful in obtaining a capacity market agreement for 2019/20 having already secured a capacity market agreement for 2018/19 in the first auction.

The Group launched a fundamental strategic review in February 2015. The conclusions of this review were announced on 30 July 2015 as part of the Centrica plc interim results. This outlined the creation of a new Distributed Energy and Power (DE&P) business unit, which South Humber Bank Power Station forms part of. The full impact of this strategic review on the Company is yet to be fully determined but it will be a priority for the Directors during the remainder of 2016. Further details of this review are included in the Centrica plc Annual Report and Accounts 2015.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: reduced disclosures framework ('FRS 101'). The Company's transition date to FRS 101 was 1 January 2014 and comparatives have been restated accordingly. For details of the transition to FRS 101 and the effect of the change on the Company's financial position, see note 2 and 25.

Centrica SHB Limited

Strategic Report for the Year Ended 31 December 2015 (continued)

Principal risks and uncertainties

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

In June, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

Overall, management assesses the direct impacts on the Company to be minimal in the short term. The Company's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy consumers in the UK. The Company does not export its products and services to EU countries nor does it have material exposure to currency risks.

Key performance indicators (KPIs)

The Directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy. The development and performance of the Group, which includes the Company, are discussed on pages 20-21 of the Centrica plc Annual Report and Accounts which does not form part of this report.

Future developments

There are no plans to change the nature of the activities in the foreseeable future.

Approved by the Board on^{16 September}..... 2016 and signed on its behalf by:



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

Company registered in England and Wales, No. 02571241
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica SHB Limited

Directors' Report for the Year Ended 31 December 2015

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

Directors of the Company

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

Richard McCord

Mark Futyan

Peter Koch de Gooreynd

Results and dividends

The results of the Company are set out on page 7. The loss for the period for the financial year ended 31 December 2015 is £12,741,000 (2014: profit: £96,484,000). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2014: £nil).

Objectives and policies

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to counterparty credit risk and liquidity risk arose in the normal course of the Company's business:

- Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Credit risk is predominantly limited to exposures with other Centrica plc group undertakings.
- Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly.
- Liquidity risk is managed through funding arrangements with Centrica plc group undertakings.
- Foreign currency exposure is monitored by currency and duration and managed through hedging activities.

The Company did not take part in any hedging activity other than hedging with respect to foreign currency risk (2014: £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 which intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised.

Directors' and officers' liabilities

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

Centrica SHB Limited

Directors' Report for the Year Ended 31 December 2015 (continued)

Statement of Directors' Responsibilities

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

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

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

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

Disclosure of information to the auditors

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

Reappointment of auditors

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

Approved by the Board on 16 September 2016 and signed on its behalf by:



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

Company registered in England and Wales, No. 02571241

Registered office:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica SHB Limited

Independent Auditors' Report to the Members of Centrica SHB Limited

Report on the financial statements

Our opinion

In our opinion, Centrica SHB Limited's financial statements (the "financial statements"):

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

What we have audited

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

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

We have audited the financial statements of Centrica SHB Limited for the year ended 31 December 2015, set out on pages 7 to 32. 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), being FRS 101 'Reduced Disclosure Framework'.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in 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;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Centrica SHB Limited

Independent Auditors' Report to the Members of Centrica SHB Limited (continued)

Responsibilities for the financial statements and the audit

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

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

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

What an audit of financial statements involves

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

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

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

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

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

.....
Mark King (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date:.....

Centrica SHB Limited

Income Statement for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Revenue	4	19,002	32,619
Cost of sales	5	<u>(31,044)</u>	<u>(61,601)</u>
Gross loss		<u>(12,042)</u>	<u>(28,982)</u>
Operating costs before exceptional items	5	(9,050)	(13,167)
Exceptional items - impairment of tangible assets	7	<u>-</u>	<u>(214,429)</u>
Operating costs		<u>(9,050)</u>	<u>(227,596)</u>
Operating loss		(21,092)	(256,578)
Gain on disposal of property, plant and equipment	13	-	426
Dividend income	13	-	350,186
Finance cost	8	(77)	(46,348)
Finance income	8	<u>9,222</u>	<u>10,869</u>
(Loss)/profit before income tax		(11,947)	58,555
Income tax (expense)/credit	11	<u>(794)</u>	<u>37,929</u>
(Loss)/profit for the year		<u><u>(12,741)</u></u>	<u><u>96,484</u></u>

The above results were derived from continuing operations.

Centrica SHB Limited

Statement of Comprehensive Income for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
(Loss)/profit for the year		<u>(12,741)</u>	<u>96,484</u>
Total comprehensive income for the year		<u><u>(12,741)</u></u>	<u><u>96,484</u></u>

The notes on pages 11 to 32 form an integral part of these financial statements.

Centrica SHB Limited

Statement of Financial Position as at 31 December 2015

	Note	2015 £ 000	2014 £ 000
Non-current assets			
Property, plant and equipment	12	125,544	133,434
		<u>125,544</u>	<u>133,434</u>
Current assets			
Trade and other receivables	14	556,326	608,804
Inventories	15	7,665	7,530
Deferred tax asset	11	8,751	13,817
Other financial assets	16	-	3
		<u>572,742</u>	<u>630,154</u>
Total assets		698,286	763,588
Current liabilities			
Borrowings		(2)	(1)
Trade and other payables	17	(461,754)	(514,494)
Other financial liabilities	18	(12)	-
		<u>(461,768)</u>	<u>(514,495)</u>
Non-current liabilities			
Provisions for other liabilities and charges	19	(3,677)	(3,511)
Total liabilities		(465,445)	(518,006)
Net assets		232,841	245,582
Equity			
Called up share capital	20	20,000	20,000
Share premium reserve		8,436	8,436
Retained earnings		204,405	217,146
Total equity		232,841	245,582

The financial statements on pages 7 to 32 were approved and authorised for issue by the Board of Directors on 16 September 2016 and signed on its behalf by:

Richard McCord

Richard McCord

Director

Company number 02571241

The notes on pages 11 to 32 form an integral part of these financial statements.

Centrica SHB Limited

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

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2015	20,000	8,436	217,146	245,582
Loss for the year	-	-	(12,741)	(12,741)
Total comprehensive income	20,000	8,436	204,405	232,841
At 31 December 2015	20,000	8,436	204,405	232,841
	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2014	20,000	8,436	120,662	149,098
Profit for the year	-	-	96,484	96,484
Total comprehensive income	20,000	8,436	217,146	245,582
At 31 December 2014	20,000	8,436	217,146	245,582

The notes on pages 11 to 32 form an integral part of these financial statements.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015

1 General information

Centrica SHB Limited (the 'Company') is a company limited by share capital incorporated and domiciled in the UK.

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

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

These financial statements were authorised for issue by the Board on 15 September 2016.

2 Accounting policies

Basis of preparation

These financial statements were 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.

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements as it's a wholly-owned subsidiary of Centrica Plc. These financial statements present information about the Company as an individual undertaking and not about its group, and have been prepared on a going concern basis, as described in the Directors' Report.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has effected the reported financial position, financial performance and cash flows of the Company is provided in note 25.

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management;
- Disclosures in respect of related parties transactions with wholly-owned subsidiaries;
- The effects of new but not yet effective IFRSs.

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

- Presentation of IAS format financial statements;

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

- Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101, meaning in this instance 1 January 2014).

As the consolidated financial statements of Centrica Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value;
- Disclosures of the net cash-flows attributable to the operating, investing and financing activities of discontinued operations.
- Designation of previously recognised financial instruments - on transition to FRS 101, certain financial instruments are designated at fair value through profit and loss based on facts and circumstances at the date of transition (insofar as 'designation' criteria under IAS 39 are met); and
- Fair value measurement of financial assets and financial liabilities at initial recognition - on transition to FRS 101, no gains and losses in respect of the initial recognition of financial instruments are reinstated so that IAS 39 requirements apply prospectively.

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

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments designated at fair value through profit and loss on initial recognition. The carrying value of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Going concern

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

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.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Revenue recognition

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 power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Revenue is recognised on an accruals basis and principally relates to the sale of power generation capacity to a fellow Group undertaking in accordance with a capacity tolling arrangement. It is shown net of sales/value added tax, returns, rebates and discounts.

The Company is also a lessor for certain lease contracts that contain both fixed and variable cash flows. The fixed income generated from operating leases is accounted for on a straight line basis whereas the variable income element is recognised on an accruals basis because this is deemed to be the most relevant method to account due to the nature of the income stream.

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 within the power generation business includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

Overhaul costs

Contract work involved in replacing gas turbine components is capitalised and depreciated over their expected economic life, typically over the period to the next overhaul. Repairs and other costs that are not of a capital nature are charged directly to the Income Statement as incurred.

Leases

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

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

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

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognised in the income statement for the period, 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 costs'. All other foreign exchange gains and losses are presented in the income statement in the respective financial line item to which they relate.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

Taxation

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

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

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

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

EU Emissions Trading Schemes and renewable obligation certificates

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

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

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Company's income statement when received.

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

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

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

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

For gas turbine components depreciation is provided to write off the cost of the assets over their operating lives on an equivalent hours basis.

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Power station assets and decommissioning asset	Straight line, up to 30 years
Turbine components, other plant and machinery	Straight line, between 3 and 6 years

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items.

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement within interest expense.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the income statement within interest expense.

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ('CGU').

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Financial assets and liabilities

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

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 original invoice amount and are subsequently held at amortised cost using the effective interest rate ('EIR') (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group 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.

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 original invoice amount and are subsequently held at amortised cost using the EIR method (although, in practice, the discount is often immaterial). If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

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.

Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with banks or similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR 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.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Derivative financial instruments

The Company uses a range of derivatives to hedge exposures to foreign exchange risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Centrica Group's policies. Further detail on the Group's risk management policies is included within the Centrica Annual Report and Accounts 2015 of the ultimate controlling party being Centrica Plc, in the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42 and in note S3.

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.

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.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the income statement.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

2 Accounting policies (continued)

Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on re-measurement are recognised immediately in the income statement.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

3 Critical accounting judgements and key sources of estimation uncertainty

Decommissioning costs

The estimated cost of decommissioning of power stations is reviewed periodically and is based on price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred in 2028.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment

The Company has material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Company's accounting policy as disclosed in note 2. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units are recoverable.

The recoverable amount of the Company's assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs.

4 Revenue

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

	2015 £ 000	2014 £ 000
Power station tolling revenue	17,522	30,560
SBR revenue	128	-
Other revenue	1,352	2,059
	<u>19,002</u>	<u>32,619</u>

All revenue relates to the principal activity of the business and occurs wholly in the United Kingdom.

Included within the above are rentals receivable under operating leases in relation to availability fees amounting to £17,650,000 (2014: £30,562,000)

5 Analysis of costs by nature

	2015			2014		
	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Depreciation expense	8,867	-	8,867	32,445	-	32,445
Other operating expenses	-	9,050	9,050	-	13,167	13,167
Other cost of sales	<u>22,177</u>	<u>-</u>	<u>22,177</u>	<u>29,156</u>	<u>-</u>	<u>29,156</u>
Total operating costs by nature	<u>31,044</u>	<u>9,050</u>	<u>40,094</u>	<u>61,601</u>	<u>13,167</u>	<u>74,768</u>

6 Employees' costs

The Company has no direct employees (2014: zero). However, payroll costs amounting to £3,913,000 (2014: £3,496,000) were incurred through a recharge during the year in respect of an average of 59 (2014: 60) staff providing services to Centrica SHB Limited under an employee services agreement with a Group company. Also under this employee services agreement, a further £350,000 (2014: £1,188,000) of payroll costs were incurred and additional pension costs of £447,000 (2014: £427,000) have been incurred from the Group company.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

7 Exceptional items

The following exceptional items were recognised in arriving at operating loss of the reporting year:

	2015 £ 000	2014 £ 000
Impairment charges	-	214,429

Revision to abandonment estimate

Following a review of the recoverable amount of the power station asset, an impairment of £214,429,000 was made at 31 December 2014. This impairment arose because of a lower view of capacity market rates and clean spark spreads. No impairment has been recognised in 2015.

8 Net finance income/cost

Finance income

	2015 £ 000	2014 £ 000
Interest income from amounts owed by group undertakings	9,201	10,869
Other finance income	21	-
Total finance income	9,222	10,869

	2015 £ 000	2014 £ 000
Interest on amounts owed to group undertakings	-	(46,274)
Unwind of discount on decommissioning provisions	(77)	(74)
	(77)	(46,348)

9 Directors' remuneration

The aggregate emoluments paid to directors in respect of their qualifying services were £90,879 (2014: £66,701) and the aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £8,839 (2014: £6,493).

There were two directors (2014: three) to whom retirement benefits are accruing under a defined benefit pension scheme. There was one director (2014: two) to whom retirement benefits are accruing under money purchase pension schemes. Three directors (2014: three) received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme and two directors (2014: three) exercised share options relating to the ultimate parent company. Some of these costs were borne by other Group companies.

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

The prior year emoluments have been restated to £66,701 (previously disclosed £63,748).

The prior year pension contributions figures have been restated to £6,493 (previously disclosed £6,416).

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

10 Auditors' remuneration

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

	2015 £ 000	Restated 2014 £ 000
Audit of the financial statements	<u>45</u>	<u>34</u>

The prior year figures for auditors' remuneration have been amended to reflect the allocation of fees in relation to the audit of the IFRS Group consolidation schedules, for the purpose of the Centrica plc group audit. The prior year auditors' remuneration figure has been restated to £34,333 (previously disclosed £12,000).

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

11 Income tax

Tax charged/(credited) in the income statement

	2015 £ 000	2014 £ 000
Current taxation		
UK corporation tax at 20.3% (2014: 21.5%)	(5,797)	(21,396)
UK corporation tax adjustment to prior periods	1,525	(95)
	<u>(4,272)</u>	<u>(21,491)</u>
Deferred taxation		
Adjustment in respect of prior years	-	1,126
Arising from changes in tax rates and laws	922	1,311
Origination and reversal of timing differences	4,144	(18,875)
Total deferred taxation	<u>5,066</u>	<u>(16,438)</u>
Tax expense/(credit) in the income statement	<u>794</u>	<u>(37,929)</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:

	2015 £ 000	2014 £ 000
(Loss)/profit before tax	<u>(11,947)</u>	<u>58,555</u>
Tax expense at standard UK rate at 20.25% (2014: 21.5%)	(2,419)	12,585
Effects of:		
Net expenses non-deductible for tax purposes	787	35,136
Increase (decrease) in current tax from adjustment for prior periods	1,525	1,031
Decrease (increase) from effect of revenues exempt from taxation	(21)	(1,454)
Increase (decrease) arising from group relief tax reconciliation	(2,131)	-
Increase (decrease) from transfer pricing adjustments	2,134	(1,525)
Deferred tax expense (credit) relating to changes in tax rates or laws	922	1,311
Increase (decrease) from effect dividends from UK companies	-	(75,266)
Increase (decrease) from effect of rollover relief on profit on disposal of fixed assets	(3)	-
Other tax effects for reconciliation between accounting profit and tax expense (income)	-	(9,747)
Total income tax expense/(credit)	<u>794</u>	<u>(37,929)</u>

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

11 Income tax (continued)

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

Deferred tax

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

Deferred tax movement during the year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	13,632	(5,096)	8,536
Derivatives	(1)	-	(1)
Other items	186	30	216
Net tax assets/(liabilities)	<u>13,817</u>	<u>(5,066)</u>	<u>8,751</u>

Deferred tax movement during the prior year:

	At 1 January 2014 £ 000	At 31 December 2014 £ 000
Accelerated tax depreciation	13,632	13,632
Derivatives	(1)	(1)
Other items	186	186
Net tax assets/(liabilities)	<u>13,817</u>	<u>13,817</u>

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

	2015 £ 000	2014 £ 000
Gross deferred tax balances crystallising within one year	2,919	5,066
Gross deferred tax balances crystallising after one year	<u>5,832</u>	<u>8,752</u>
	8,751	13,818
Offsetting deferred tax balances	<u>-</u>	<u>(1)</u>
Net deferred tax balances (after offsetting for financial reporting purposes)	<u>8,751</u>	<u>13,817</u>

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

12 Property, plant and equipment

	Freehold Land £ 000	Power station assets £ 000	Turbine components and other plant and machinery £ 000	Decommissioning asset £ 000	Total £ 000
Cost or valuation					
At 1 January 2015	2,210	538,986	204,127	2,974	748,297
Additions	-	887	1	89	977
Disposals	-	-	(332)	-	(332)
At 31 December 2015	<u>2,210</u>	<u>539,873</u>	<u>203,796</u>	<u>3,063</u>	<u>748,942</u>
Accumulated depreciation					
At 1 January 2015	-	518,476	95,995	392	614,863
Depreciation charge for the year	-	1,202	7,474	191	8,867
Disposals	-	-	(332)	-	(332)
At 31 December 2015	<u>-</u>	<u>519,678</u>	<u>103,137</u>	<u>583</u>	<u>623,398</u>
Carrying amount					
At 31 December 2015	<u>2,210</u>	<u>20,195</u>	<u>100,659</u>	<u>2,480</u>	<u>125,544</u>
At 31 December 2014	<u>2,210</u>	<u>20,510</u>	<u>108,132</u>	<u>2,582</u>	<u>133,434</u>

Included within the net book value of land and buildings above is £2,210,000 (2014: £2,210,000) in respect of freehold land and buildings.

In 2015 the cost of assets held under finance leases was £nil, with accumulated depreciation of £nil (2014: £370,149,000). On 31 December 2014, as part of an internal reorganisation by the ultimate parent company, these assets held under finance lease were transferred from Humberland Limited to the Company, therefore there are no longer any assets held under finance leases.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

13 Investments in subsidiaries

Details of the equity interests of the Company in its subsidiaries undertakings are as follows as at 31 December 2015:

The Company owns 100% of the ordinary issued shares of Humberland Limited, a dormant company registered in England and Wales. The principal activity in 2014 of Humberland Limited was the development of and investment in the South Humber Bank Power Station which it leased to the Company. On 31 December 2014, as part of an internal reorganisation by the ultimate parent company, the trade and assets of Humberland Limited were transferred to the Company. The transfers took place in exchange for £350,185,900 consideration and resulted in a profit to the income statement of £426,000. Following the transfer, on 31 December 2014 Humberland Limited declared and paid an interim dividend of £350,186,000 to Centrica SHB Limited. The trade of Humberland Limited has been taken on by the Company from this date.

14 Trade and other receivables

	2015 £ 000	2014 £ 000
Amounts owed by group undertakings	555,126	607,368
Prepayments	763	690
Other receivables	437	746
	<u>556,326</u>	<u>608,804</u>

Included within the amounts owed by Group undertakings is a receivable of £545,159,000 (2014: £586,334,000) consisting of interest bearing and non-interest bearing balances to the same Group undertaking. The interest bearing balance comprises a receivable of £90,074,000 (2014: £608,544,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The non-interest bearing balance comprises a receivable of £455,085,000 (2014: £22,210,000). The quarterly rates ranged between 2.36% and 2.88% per annum during 2015 (2014: 1.69% and 1.90%). The other amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

Also included within the amounts owed by Group undertakings is a corporation tax receivable of £5,797,000 (2014: £21,394,000).

15 Inventories

	2015 £ 000	2014 £ 000
Raw materials and consumables	<u>7,665</u>	<u>7,530</u>

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

16 Other financial assets

	2015 £ 000	2014 £ 000
Derivatives financial instruments	-	3

17 Trade and other payables

	2015 Current £ 000	2014 Current £ 000
Trade payables	594	741
Accrued expenses	897	1,604
Amounts owed to group undertakings	456,320	506,285
EU ETS emissions obligation	3,943	5,864
	<u>461,754</u>	<u>514,494</u>

Amounts owed to Group undertakings are unsecured, interest-free and repayable on demand.

18 Other financial liabilities

	2015 £ 000	2014 £ 000
Derivative financial instruments	12	-

19 Other provisions

	Decommissioning £ 000	Total £ 000
At 1 January 2015	3,511	3,511
Additions and revisions	89	89
Accretion of interest	77	77
At 31 December 2015	<u>3,677</u>	<u>3,677</u>

Decommissioning

The decommissioning provision represents the future expected costs of decommissioning the station at the end of its useful economic life, discounted to its present value.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

20 Capital and reserves

Allotted, called up and fully paid shares

	2015		2014	
	No.	£	No.	£
Ordinary Shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>

21 Commitments and contingencies

Leases as lessee

At 31 December 2015 the company had annual commitments under non-cancellable operating leases with the following maturity:

	2015 £ 000	2014 £ 000
In two to five years	11	-
In over five years	<u>49</u>	<u>49</u>
	<u>60</u>	<u>49</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year as cost of sales was £11,000 (2014: £1,000).

Capital commitments

Contracted future capital expenditure as at 31 December 2015 was £56,247,000 (2014: £69,000).

22 Financial instruments at fair value

The Company has entered into forward contracts to economically hedge its foreign exchange exposure on milestone payments made to foreign suppliers. The derivatives fair value are recognised in the financial statements.

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica Plc. Further information on the matter including valuation techniques to derive Level 2 and Level 3 fair values is provided in its Annual Report and Accounts 2015, in note S6 from page 153 onwards.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

22 Financial instruments at fair value (continued)

Financial instruments carried at fair value

	<i>Fair value hierarchy</i>			
	2015	2015	2014	2014
	Fair value and	Level 2	Fair value and	Level 2
	carrying value	£ 000	carrying value	£ 000
	£ 000		£ 000	
Foreign exchange derivatives	(12)	(12)	-	-
Total financial liabilities at fair value through profit or loss	(12)	(12)	-	-
Total financial instruments at fair value	(12)	(12)	-	-

23 Parent and ultimate parent undertaking

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

The ultimate parent 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 statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com. These financial statements are available upon request from www.centrica.com.

24 Events after the financial period

In June, a UK referendum resulted in a vote for the country to leave the European Union and the resultant uncertainty adds to the challenges for UK businesses in all sectors. This uncertainty may lead to volatility in markets with potential fluctuations in foreign exchange rates, interest rates and commodity prices. Sensitivity analysis associated with the Group's exposure to currency, interest rate and commodity price risk was included in note S3 of the Group's consolidated Financial Statements for the year ended 31 December 2015.

Overall, management assesses the direct impacts on the Company to be minimal in the short term. The Company's focus is now on understanding what the result means for energy and other material business regulations over time and how this would impact the competitiveness of the European energy markets. The UK is a major energy importer and what happens in the European energy market will ultimately impact energy consumers in the UK. The Company does not export its products and services to EU countries nor does it have material exposure to currency risks.

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

25 Transition to FRS 101

As stated in the 'basis of preparation' note, these are the Company's first Financial Statements prepared in accordance with FRS 101. The accounting policies set out in the policies note have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the 'Company's date of transition').

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

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

25 Transition to FRS 101 (continued)

Balance sheet at 1 January 2014

	As originally reported £ 000	Remeasurement £ 000	As restated £ 000
Non-current assets			
Property, plant and equipment	133,434	-	133,434
	<u>133,434</u>	<u>-</u>	<u>133,434</u>
Current assets			
Trade and other receivables	608,804	-	608,804
Inventories	7,530	-	7,530
Deferred tax assets	13,818	(1)	13,817
Other financial assets		3	3
	<u>630,152</u>	<u>2</u>	<u>630,154</u>
Total assets	<u>763,586</u>	<u>2</u>	<u>763,588</u>
Current liabilities			
Bank overdrafts, loans and other borrowings	(1)	-	(1)
Trade and other payables	<u>(514,494)</u>	<u>-</u>	<u>(514,494)</u>
	514,495	-	514,495
Non-current liabilities			
Provisions for other liabilities and charges	<u>(3,511)</u>	<u>-</u>	<u>(3,511)</u>
Total liabilities	<u>518,006</u>	<u>-</u>	<u>518,006</u>
Net assets	<u>(245,580)</u>	<u>(2)</u>	<u>(245,582)</u>
Equity			
Called up share capital	20,000	-	20,000
Share premium reserve	8,436	-	8,436
Retained earnings	<u>217,144</u>	<u>2</u>	<u>217,146</u>
Total equity	<u>245,580</u>	<u>2</u>	<u>245,582</u>

Centrica SHB Limited

Notes to the Financial Statements for the Year Ended 31 December 2015 (continued)

25 Transition to FRS 101 (continued)

Profit and loss account for the year ended 31 December 2014

	As originally reported £ 000	Remeasurement £ 000	As restated £ 000
Revenue	32,619	-	32,619
Cost of sales	<u>(61,600)</u>	<u>(1)</u>	<u>(61,601)</u>
Gross loss	(28,981)	(1)	(28,982)
Operating costs before exceptional items	(13,167)	-	(13,167)
Exceptional items - impairment of tangible assets	<u>(214,429)</u>	<u>-</u>	<u>(214,429)</u>
Operating loss	(256,577)	(1)	(256,578)
Gain on disposal of property, plant and equipment	426	-	426
Dividend income	350,186	-	350,186
Finance cost	(46,348)	-	(46,348)
Finance income	<u>10,869</u>	<u>-</u>	<u>10,869</u>
Profit before income tax	58,556	(1)	58,555
Income tax credit	<u>37,929</u>	<u>-</u>	<u>37,929</u>
Profit for the financial year	<u>96,485</u>	<u>(1)</u>	<u>96,484</u>

Previously the Company took the exemption allowed under FRS 26 "Financial instruments: Recognition and measurement" meaning that no accounting entries were required until contractual payments were made.

However, for internal Group reporting the Company adopted IAS 39 "Financial instruments: Recognition and measurement" and cash flow hedge documentation was prepared from inception for these interest rate swaps. On transition to IFRS the internal Group reporting and documentation has been adopted within these financial statements, resulting in the derivatives being subject to a mark-to-market valuation on transition at each balance sheet date and included within other financial assets or other financial liabilities falling due within one year, with the resulting gain or loss recorded in equity within the cash flow hedge reserve. The change in fair value of the cash flow hedging instruments is recorded in other comprehensive income.

In addition, where adjustments on transition to IFRS have affected asset or liability values, then these entries have also been tax-effected in line with IFRS.

On transition the deferred tax balance will be updated in the opening statement of financial position, with the gain or loss recorded directly in equity.

For movements in the year the deferred tax treatment follows the treatment of the item to which it relates, with deferred tax on the mark-to-market of the interest rate swap cash flow hedge recorded in other comprehensive income and the deferred tax movement on these liabilities included within provisions in the statement of financial position.