Accord Energy Limited

Annual report and Financial Statements
For the year ended 31 December 2008

Registered Number: 2877398

Accord Energy Limited

Accord Energy Limited

Directors' report for the year ended 31 December 2008

The Directors present their report and the audited financial statements of Accord Energy Limited ("the Company") for the year ended 31 December 2008.

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 and emissions certificates in the UK and Europe.

Review of business and future developments
Both the level of business during the year and the financial position of the Company at the year-end were in line with expectations. The Directors expect the Company to continue to trade physical energy products and energy related derivatives for the foreseeable future.

Results and dividends
The profit on ordinary activities after taxation for the year ended 31 December 2008 is £33.3 million (2007: £8.0 million). The Directors do not recommend the payment of a final dividend (2007: £nil).

Financial Position
The financial position of the Company is presented in the Balance Sheet on page 6. Shareholders' funds at 31 December 2008 were £230.0 million (2007: £196.5 million), comprising fixed asset investments of £0.9 million (2007: £0.9 million) and net current assets of £229.2 million (2007: £195.6 million).

Principal risks and uncertainties
The management of the business and the execution of the Company's strategy are subject to a number of risks. The most significant business risk and uncertainty 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. Further information is set out in Note 15 of the Company's financial statements.

Key performance indicators ("KPIs")
The Directors believe that the key performance indicator for the Company is operating profit.

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

Mr A D Le Poidevin
Mr I Wood
Mr V M Hanafin (appointed 31 July 2008)
Mr J S Ulrich (resigned 31 July 2008)

Political and charitable donations
The Company made no political or charitable donations during the year (2007: £nil).

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 the Director is proved to have acted fraudulently.

Creditor payment policy
It is the Company's policy to agree the terms of payment in advance with the supplier, ensure that suppliers are aware of the terms of payment, and pay in accordance with contractual and other legal obligations. The number of days' purchases outstanding as at 31 December 2008 was 12 (2007: 11).

Financial risk management

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 and are set out in Note 15 of the Company's financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that 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 1985. 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.

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.

Accord Energy Limited

Directors' report for the year ended 31 December 2008 (continued)

This report was approved by the Board on 20 May 2009.

For and on behalf of Centrica Secretaries Limited
Company Secretary

20 May 2009

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Accord Energy Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ACCORD ENERGY LIMITED

We have audited the financial statements of Accord Energy Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 May 2009

Accord Energy Limited

Profit and Loss Account
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net trading income	2	**60,676**	20,829
Administrative expenses before exceptional items		(16,021)	(15,848)
Exceptional items	3	(10,000)	-
Administrative expenses including exceptional items		(26,021)	(15,848)
Operating profit	4	**34,655**	4,981
Net interest receivable	6	11,977	6,459
Profit on ordinary activities before taxation		**46,632**	11,440
Tax on profit on ordinary activities	7	(13,329)	(3,434)
Profit on ordinary activities after taxation for the financial year		33,303	8,006
Retained profit transferred to reserves	13	33,303	8,006

All gains or losses for the year have been derived from continuing operations.

The Company has no recognised gains and losses other than the profit for the year 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.

Accord Energy Limited

Balance Sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed Assets			
Tangible fixed assets	8	**1**	2
Investments	9	**850**	850
		851	852
Current Assets			
Stock		**-**	2
Debtors (amounts falling due within one year)	10	**4,199,740**	1,801,804
Cash at bank and in hand		**7,493**	7,017
		4,207,233	1,808,823
Creditors (amounts falling due within one year)	11	**(3,978,036)**	(1,613,216)
Net current assets		**229,197**	195,607
Total assets less current liabilities		**230,048**	196,459
Net assets		**230,048**	196,459
Capital and reserves			
Called up share capital	12	**50**	50
Other reserves	13	**505**	219
Profit and loss account	13	**229,493**	196,190
Equity Shareholders' Funds	14	**230,048**	196,459

The financial statements on pages 5 to 20 were approved and authorised for issue by the Board of Directors on 20 May 2009 and were signed on its behalf by:

Ian Wood

Ian Wood
Director

1 Principal accounting policies

These financial statements have been prepared on the going concern basis, in accordance with the Companies Act 1985 and applicable United Kingdom Accounting Standards. The principal accounting policies are set out below.

Exemptions

The Company is a wholly owned subsidiary undertaking of Centrica plc, and has taken advantage of the exemptions within: FRS 1 Cash Flow Statements from presenting a cash flow statement; FRS 2 Accounting for Subsidiary Undertakings from preparing consolidated financial statements; FRS 8 Related Party Disclosures from disclosing transactions with other Group companies; and FRS 29 Financial Instruments: Disclosure and Presentation from providing additional disclosures relating to financial instruments.

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 customers 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 customers 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.

1 Principal accounting policies (continued)

Trade debtors and trade creditors

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

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.

Stock

Stock consists of physical gas stocks and emissions certificates. Stock is held at the lower of cost and net realisable value.

Foreign currencies

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.

1 Principal accounting policies (continued)

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.

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 Group has a number of employee share schemes, detailed in the Remuneration Report on pages 44 to 55 of the Centrica plc Annual Report and Accounts 2008 and in note 33 of the Centrica plc Annual Report and Accounts 2008, 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

2 Net trading income

	2008	2007
	£'000	£'000
Turnover	25,779,850	14,025,526
Cost of sales	(25,719,174)	(14,004,697)
Net trading income	60,676	20,829

3 Exceptional items

The Company has recognised a doubtful debt provision in the year of £10,000,000 arising from the insolvency of Lehman Brothers Commodity Services Inc (see note 10).

4 Operating profit

The operating profit is stated after charging/(crediting):

	2008	2007
	£'000	£'000
Auditor's remuneration	147	151
Depreciation	1	1
Foreign exchange gains	(99)	(586)

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory accounts of 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 Accord Energy Limited. Prior year audit fees have been restated to reflect the inclusion of an element of the Centrica Group fee.

5 Directors and employees

(a) Directors' emoluments

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

Mr V M Hanafin is also a Director of the ultimate parent company and his remuneration for services to the Group as a whole is shown in Centrica plc's Annual Report and Accounts for the year ended 31 December 2008.

The emoluments of the Directors are paid by a Group undertaking and are deemed by them to be wholly attributable to their services to that undertaking. Accordingly no details in respect of their emoluments have been included in these financial statements.

Accord Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

5 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 30 (2007: 34). All personnel are based in the United Kingdom. Staff costs for these employees were as follows:

	2008	2007
	£'000	**£'000**
Wages and salaries	**3,620**	2,576
Social security costs	**441**	341
Other pension and retirement benefits costs	**451**	305
Long Term Incentive Scheme	**51**	46
Sharesave Scheme	**16**	13
Share Incentive Plan	**7**	1
Share Award Scheme	**31**	83
Restricted Share Scheme	**168**	-
	4,785	3,365

6 Net interest receivable

	2008	2007
	£'000	**£'000**
Interest receivable from group undertakings	**28,426**	4,913
Interest receivable from third parties	**2,050**	2,551
Interest payable to third parties	**(18,499)**	(1,005)
Net interest receivable	**11,977**	6,459

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

7 Taxation on profit on ordinary activities

	2008	2007
	£'000	**£'000**
(a) Analysis of tax charge in the year		
The tax charge comprises:		
Current tax		
United Kingdom corporation tax at 28.5% (2007: 30%)	**13,292**	3,431
Adjustments in respect of prior years	**36**	-
Total current tax	**13,328**	3,431
Deferred tax		
Origination and reversal of timing differences	**1**	3
Total tax on profit on ordinary activities	**13,329**	3,434

7 Taxation on profit on ordinary activities (continued)

(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:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	**46,632**	11,440
Tax on profit on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	**13,290**	3,432
Effects of:		
Depreciation in excess of capital allowances	**(1)**	(3)
UK:UK transfer pricing adjustment	**4**	-
Expenses not deductible for tax purposes	**-**	2
Adjustments to tax charge in respect of previous years	**36**	-
Tax charge for the year	**13,329**	3,431

Accord Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 Tangible fixed assets

	£'000
Cost	
Balance at 1 January 2008	158
Additions	-
Balance at 31 December 2008	**158**
Depreciation	
Balance at 1 January 2008	156
Charge for the year	1
Balance at 31 December 2008	**157**
Net book value	
As at 31 December 2008	**1**
As at 31 December 2007	2

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

9 Fixed asset investments

Subsidiary undertakings

	2008 £'000	2007 £'000
Cost and carrying value	**850**	850

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

10 Debtors (amounts falling due within one year)

	2008 £'000	2007 £'000
Derivative financial instruments (i)	**2,766,230**	842,731
Deferred corporation tax	**7**	8
Amounts owed by group undertakings (ii)	**597,393**	574,333
Taxation and social security	**-**	569
Other debtors and prepayments (iii)	**214,120**	28,725
Accrued income	**621,990**	355,438
	4,199,740	1,801,804

(i) Derivative financial instruments include £1,776,506,000 (2007: £327,811,000) of amounts owed by Group undertakings.

(ii) Amounts owed by Group undertakings are unsecured, have no fixed date of payment and an amount of £nil (2007: £236,300,000) bears a 3 month LIBOR rate plus 50 basis points.

(iii) Other debtors and prepayments are made up of margin payments of £146,790,000 (2007: £9,800,000), a VAT debtor of £18,302,000 (2007: £nil), futures broker balances of £12,114,000 (2007: £10,787,000), prepayments of £11,000 (2007: £76,000) and sundry debtors of £36,903,000 (2007: £8,062,000).

Sundry debtors include a receivable balance of £35,337,000 relating to the insolvency of Lehman Brothers Commodity Services Inc. A provision of £10,000,000 has been established against this amount.

Deferred corporation tax

The deferred corporation tax asset at 28% (2007: 28%) is analysed as follows:

	Amounts provided 2008 £'000	2007 £'000
Accelerated capital allowances	7	8

Accord Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 Creditors (amounts falling due within one year)

	2008	2007
	£'000	£'000
Trade creditors	**52,615**	21,288
Derivative financial instruments (i)	**2,698,677**	858,306
Amounts owed to group undertakings (ii)	**415,326**	235,334
Taxation and social security	**9,757**	-
Accruals and deferred income	**749,513**	399,408
Other creditors (iii)	**52,148**	98,880
	3,978,036	1,613,216

(i) Derivative financial instruments include £876,087,000 (2007: £485,347,000) of amounts owed to Group undertakings.
(ii) Amounts owed to Group undertakings are unsecured, have no fixed date of repayment and an amount of £263,969,000 (2007: £nil) bears a 3 month LIBOR rate plus 50 basis points.
(iii) Other creditors include cash collateral received amounts of £43,000,000 (2007: £93,126,000).

12 Called up share capital

	2008 £	2007 £
Authorised share capital		
50,000 ordinary shares of £1 each	**50,000**	50,000
196 participating preference shares of £1 each	**196**	196
999,753 unclassified shares of £1 each	**999,753**	999,753
	1,049,949	1,049,949

	2008 £	2007 £
Allotted and fully paid share capital		
50,000 ordinary shares of £1 each	**50,000**	50,000
196 participating preference shares of £1 each	**196**	196
	50,196	50,196

13 Reserves

	£'000
Other reserves:	
As at 1 January 2008	219
Share based payment	286
As at 31 December 2008	**505**
Profit and loss account:	
As at 1 January 2008	196,190
Retained profit for the financial year	33,303
As at 31 December 2008	**229,493**

14 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit for the financial year	33,303	8,006
Retained profit for the financial year	33,303	8,006
Share-based payment	286	142
Net addition to shareholders funds	33,589	8,148
Opening shareholders funds	196,459	188,311
Closing shareholders' funds	230,048	196,459

15 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 2008 was £0.9 million (2007: £1.0 million). The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2008 is disclosed in part (ii) of this note.

15 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 2008 was £4,198,920,000 (2007: £1,808,168,000).

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. Accord employs a variety of other methods to mitigate credit risk including margining, various forms of bank and Parent Company Guarantees and Letters of Credit. Accord 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 2008 the Company had received £43,000,000 (2007: £93,126,000) of cash collateral amounts principally under margin calls to cover exposure to mark to market positions on derivative contracts and had pledged £146,790,000 (2007: £9,800,000).

Interest rate risk, currency 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

	2008 Carrying value/ Fair value £'000	2007 Carrying value/ Fair value £'000
Amounts owed by group undertakings	**597,393**	574,333
Other debtors	**195,814**	28,649
Accrued income	**621,990**	355,438
Cash and cash equivalents	**7,493**	7,017
	1,422,690	965,437

15 Financial instruments (continued)

Primary financial liabilities

	2008 Carrying value/ Fair value £'000	2007 Carrying value/ Fair value £'000
Trade creditors	**52,615**	21,288
Amounts owed to group undertakings	**415,326**	235,334
Accruals	**749,513**	399,408
Other creditors	**52,148**	98,880
	1,269,602	754,910

Derivative financial instruments

	2008 Carrying value/ Fair value £'000	2007 Carrying value/ Fair value £'000
Derivative financial instruments held for trading:		
Energy derivatives – assets	**2,766,230**	842,731
Energy derivatives – liabilities	**(2,698,677)**	(858,306)
Net total	**67,553**	(15,575)

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 2008. 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 profit of £78,741,000 (2007: loss of £25,951,000).

The most significant assumptions incorporated in the valuation techniques used to value commodity contracts at 31 December 2008 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.

16 Pensions

The majority of the Company's UK employees as at 31 December 2008 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 £0.5 million (2007: £0.3 million). The amount outstanding at the balance sheet date was £nil (2007: £nil). The latest actuarial valuation of the schemes, updated for the purposes of FRS17 show a total deficit of £96 million, £70 million net of deferred tax (2007: a total surplus of £35 million, £25 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 2006.

17 Share schemes

The Group has a number of employee share schemes, as detailed on Pages 46-49 and 117-122 of the Centrica plc Annual Report and Accounts 2008, 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.

18 Ultimate parent company

GB Gas Holdings Limited, a company registered in England and Wales, is the immediate parent company. Centrica plc, a company registered in England and Wales, is the ultimate parent company and the only company to consolidate the financial statements of Accord Energy Limited. Copies of the Annual Report and Accounts of Centrica plc may be obtained from www.centrica.com.