Registration number: 02877398

Centrica Energy Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015

Centrica Energy Limited

Contents

Centrica Energy Limited

Strategic Report for the Year Ended 31 December 2015

The Directors present their Strategic Report of Centrica Energy Limited ("the Company") for the year ended 31 December 2015.

Review of the business
The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The Company's transition date to FRS 101 was 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 22.

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

The financial position of the Company is set out on page 9. The net assets for the financial year ended 31 December 2015 is £432.8m (2014: £379.9m). The financial performance of the Company is set out in the Directors' Report on page 3. Both the level of business during the year and the financial position of the Company at the year-end were higher than managements expectations, driven by a strong trading performance.

These accounts are included in the consolidated accounts of Centrica plc, the ultimate parent and controlling company.

Financial performance
The financial performance of the Company is set out in the Directors' Report on page 3.

Financial position
The financial position of the Company is set out in the Directors' Report on page 3.

Principal risks and uncertainties
The principal risk and uncertainty affecting the business and execution of the Company strategy is continuing to operate efficiently and effectively within the regulatory requirements placed upon the business.

The Company's operations expose it to a number of financial risks. Given the size and nature of the Company these risks are managed by the risk and finance departments in accordance with the Group guidelines set by Centrica plc. The principal financial risk facing the Company is credit risk, which arises on intercompany and external balances and bank deposits. The Company only trades with companies that have an investment grade credit rating or subsidiaries of companies with an investment grade credit rating. Bank deposits are only held with financial institutions, which have been approved by Centrica plc.

Future Developments
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. These movements could impact, amongst other things, the fair value of derivative financial instruments and other assets, the discount rate used to value the Company's Registered Pension Schemes and the carrying value and cost of servicing the Group's debt. 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.

Key performance indicators (KPIs)
The Directors of the Group use a number of KPI's to monitor progress against the Group's strategy. The financial and non-financial performance indicators, which include the Company, are discussed on pages 20 and 21 of the Annual Report and Accounts 2015 of the Group which does not form part of this report.

In addition to the Group KPIs noted above, the Directors of the Company believe that the trader margin which drives the operating profit of the business is the critical KPI specific to the Company. The operating profit is noted within the income statement reported on page 7. The operating profit forms part of the monthly reporting pack reviewed by senior management to gain an understanding of the performance of the business. Additional KPIs include the Directors' review of counterparty credit risk, VaR and liquidity risk, which is analysed in detail within note 18. The extent of the risks relative to the approved limits are also reviewed monthly by senior management to gain an understanding of the performance of the business.

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

....
Centrica Secretaries Limited
Company secretary

Company registered in England and Wales, No. 02877398

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales

Centrica Energy Limited

Directors' Report for the Year Ended 31 December 2015

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

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

Mr V M Hanafin

Mr A D Le Poidevin

Mr A Netemeyer (resigned 31 December 2015)

Mr C Mangerah (appointed 9 December 2015)

Results and dividends
The results of the Company are set out on page 7. The profit for the financial year ended 31 December 2015 is £53.1m (2014: profit £39.9m). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2014: £Nil)

Principal risks and uncertainties
The principal risks and uncertainties of the Company are set out in the Strategic Report on page 1.

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

The Company also maintains directors' and officers' liability insurance for its Directors and officers which 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 or officer is proved to have acted fraudulently.

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

Subsequent events
Events after the reporting date are disclosed in note 21.

Going concern
The Financial Statements have been prepared on a going concern basis.

Centrica Energy 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 they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

....
Centrica Secretaries Limited
Company secretary

Company registered in England and Wales, No. 02877398

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales

Centrica Energy Limited

Independent auditors' report to the members of Centrica Energy Limited

Report on the financial statements

Our opinion
In our opinion, Centrica Energy Limited's financial statments (the "financial statements"):

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

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In 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 arsing from this responsibility.

Independent auditors' report to the members of Centrica Energy Limited (continued)

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

Responsibilities for the financial statements and the audit

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

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

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

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

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

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

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

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

....
Mark King (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2016

Centrica Energy Limited

Income Statement for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Net trading income	4	103,174	80,257
Operating costs	5	(37,095)	(35,044)
Operating profit		**66,079**	**45,213**
Income from shares in group undertakings	7	4,000	-
Finance income	7	17,409	13,044
Finance cost	7	(21,798)	(7,452)
Profit before income tax		**65,690**	**50,805**
Income tax expense	10	(12,620)	(10,908)
Profit for the financial year		**53,070**	**39,897**

The notes on pages 11 to 42 form an integral part of these financial statements.

Centrica Energy Limited

Statement of Comprehensive Income for the Year Ended 31 December 2015

	Note	2015 £ 000	2014 £ 000
Profit for the financial year		53,070	39,897
Other comprehensive income		-	-
Items that will not be reclassified subsequently to profit or loss			
Net actuarial gains/losses on defined benefit pension schemes		(189)	(13)
Items that may be reclassified subsequently to profit or loss			
Income tax on items that will not be reclassified to profit or loss		2	-
Total comprehensive income for the year		**52,883**	**39,884**

The notes on pages 11 to 42 form an integral part of these financial statements.

Centrica Energy Limited

Statement of Financial Position as at 31 December 2015

	Note	2015 £ 000	2014 £ 000
Non-current assets			
Investments	11	850	850
Defined benefit pension assets	16	269	413
Derivative financial instruments	14	8,652	-
Deferred tax assets	10	874	5
		10,645	1,268
Current assets			
Trade and other receivables	13	1,026,830	1,225,025
Income tax asset	22	-	2,270
Derivative financial instruments	14	1,696,565	1,387,269
Cash and cash equivalents	12	6,637	11,979
		2,730,032	2,626,543
Total assets		**2,740,677**	**2,627,811**
Current liabilities			
Trade and other payables	15	(694,703)	(864,484)
Derivative financial instruments	14	(1,595,846)	(1,367,622)
Current tax liabilities	10	(12,498)	(10,913)
		(2,303,047)	(2,243,019)
Non-current liabilities			
Deferred tax liabilities	10	(48)	(83)
Trade and other payables	15	(4,815)	(4,832)
		(4,863)	(4,915)
Total liabilities		**(2,307,910)**	**(2,247,934)**
Net assets		**432,767**	**379,877**
Equity			
Called up share capital	17	50	50
Other reserves		926	919
Retained earnings		431,791	378,908
Total equity		**432,767**	**379,877**

The financial statements on pages 7 to 42 were approved and authorised for issue by the Board of Directors on 29 September 2016 and signed on its behalf by:

....

Mr C Mangerah

Director

Company number 02877398

The notes on pages 11 to 42 form an integral part of these financial statements.

Centrica Energy Limited

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

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2014	50	914	339,024	339,988
Profit for the year	-	-	39,897	39,897
Other comprehensive income	-	-	(13)	(13)
Total comprehensive income	**50**	**914**	**378,908**	**379,872**
Share incentive plan	-	5	-	5
At 31 December 2014	**50**	**919**	**378,908**	**379,877**

	Share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2015	50	919	378,908	379,877
Profit for the year	-	-	53,070	53,070
Other comprehensive income	-	-	(187)	(187)
Total comprehensive income	**50**	**919**	**431,791**	**432,760**
Share incentive plan	-	7	-	7
At 31 December 2015	**50**	**926**	**431,791**	**432,767**

1 General information

Centrica Energy Limited (the 'Company') is a company limited by share capital incorporated and domiciled in the United Kingdom.

The address of its registered office and principle place of business is:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales

These Financial Statements were authorised for issue by the Board on 29 September 2016.

2 Accounting policies

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

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.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Going concern

The financial statements have been prepared on a going concern basis.

Summary of disclosure exemptions

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has effected the reported financial position and financial performance of the Company is provided in note 22.

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

2 Accounting policies (continued)

• A Cash Flow statement and related notes;
• Comparative period reconciliations for share capital;
• Disclosures in respect of related party transactions with wholly-owned subsidiaries;
• Disclosures in respect of the compensation of Key Management Personnel;
• The effects of new but not yet effective IFRSs.

Note that the Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:
• Presentation of IAS format financial statements;
• Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101).

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand except where 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, financial instruments designated at fair value through profit and loss on initial recognition and the Company's share of assets of the Group's defined benefit schemes that's have been recorded at fair value.

Changes in accounting policy
None of the standards, interpretations and amendments effective for the first time from 1 January 2015 have had a material effect on the financial statements.

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.

Net trading income
Net trading income is the net of Trading income and Commodity costs. Trading income comprises the fair value of the consideration received or receivable from trading activities in the ordinary course of the business, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the trading income can be measured reliably. Trading income comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts. Revenue is shown net of sales/value added tax, returns, rebates and discounts.

Commodity costs comprise the fair value of the consideration paid or payable from trading activities in the ordinary course of the business, and is recognised to the extent that it is probable that economic benefits will flow away from the Company and the cost can be measured reliably. Commodity costs comprise both realised (settled) and unrealised (fair value changes) net losses and gains from trading in physical and financial energy contracts.

2 Accounting policies (continued)

Employee share schemes

The Centrica Plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 63-81 and in note S2 of the Group financial statements, 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 in the income statement together with a corresponding increase in equity over the vesting period, based on the Centrica Plc 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 detailed in note S2 of the Group financial statements

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Income from shares in group undertakings

Income from shares in group undertakings comprises the consideration received or receivable from dividend distributions made by Centrica Energy (Trading) Limited to Centrica Energy Limited. It is recognised to the extent that it is probable that the economic benefits will flow to the Company and the share income can be measured reliably.

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 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 substantively enacted by the balance sheet date. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

2 Accounting policies (continued)

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 (if impairment of goodwill is not deductible for tax purposes) 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 liabilities are offset against deferred tax assets when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on 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. The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Investments in subsidiaries
The Company does not deem its investments in subsidiaries as well as related receivables to be impaired and supports this judgment through its impairment review process.

Defined benefit pension obligation
The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

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.

2 Accounting policies (continued)

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

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

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

Trade and other payables
Trade payables are obligations to pay amounts to suppliers in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised at the original invoice amount.

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

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

2 Accounting policies (continued)

Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Company's statement of financial position at fair value. Gains and losses arising from changes in fair value on derivatives are taken directly to the income statement for the year.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 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.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Company enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the income statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the income statement. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

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

Embedded derivatives: 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.

3 Critical accounting judgements and key sources of estimation uncertainty

Determination of fair values - energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

4 Net trading income

The analysis of the Company's trading income for the year from continuing operations is as follows:

	2015 £ 000	2014 £ 000
Trading income	52,875,146	58,974,607
Commodities costs	(52,738,329)	(58,885,726)
Transportation, Distribution & Metering costs	(33,643)	(8,624)
Net trading income	103,174	80,257

The Company carries out the most of its trading within UK markets and generates the majority of its income in the UK. The other key markets in which revenue is generated are the Netherlands and Germany.

5 Analysis of operating costs by nature

The analysis of the Company's operating costs for the year is as follows:

	2015		2014	
	Other operating costs £ 000	Total costs £ 000	Other operating costs £ 000	Total costs £ 000
Employee costs	13,854	13,854	12,206	12,206
Foreign exchange losses / (gains)	24	24	(1)	(1)
Impairment of trade receivables	6	6	(152)	(152)
Other operating costs	23,211	23,211	22,991	22,991
Total costs	37,095	37,095	35,044	35,044

6 Employees' costs

The aggregate employee costs (including directors' remuneration) were as follows:

	2015 £ 000	2014 £ 000
Wages and salaries	11,781	10,447
Social security costs	1,589	1,412
Pension and other post-employment benefit costs	262	232
Share-based payment expenses	7	5
Other employee expense	215	110
	13,854	12,206

In respect of the Directors' remuneration, refer to note 8.

The monthly average number of personnel directly employed by the Company, not including secondees from fellow Group companies, during the year was 20 (2014: 21). All personnel are based in the United Kingdom.

7 Net finance income/cost

Finance income

	2015 £ 000	2014 £ 000
Interest income from amounts owed by group undertakings	17,406	12,919
Interest income on bank and other short-term deposits	3	125
Income from shares in group undertakings	4,000	-
Total finance income	21,409	13,044

Income from shares in group undertakings comprises the consideration received or receivable from dividend distributions made by Centrica Energy (Trading) Limited to Centrica Energy Limited. It is recognised to the extent that it is probable that the economic benefits will flow to the Company and the share income can be measured reliably.

Finance interest

	2015 £ 000	2014 £ 000
Interest on amounts owed to group undertakings	(21,651)	(7,308)
Interest on bank overdrafts and borrowings	(162)	(148)
Interest expense on other financing liabilities	-	(10)
Other finance costs	15	14
Total finance cost	(21,798)	(7,452)
Net finance (cost)/income	(389)	5,592

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

8 Directors' remuneration

The aggregate emoluments paid to directors in respect of their qualifying services were £592,146 (2014: £486,404).

The aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £19,598 (2014: £18,875). There were 2 directors (2014: 1) to whom retirement benefits are accruing under defined benefit pension schemes. There was 1 director (2014: 1) to whom retirement benefits are accruing under money purchase pension scheme.

There were 4 Directors (2014: 3) who received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme. There was 1 director (2014: 1) who exercised share options relating to the ultimate parent company.

8 Directors' remuneration (continued)

In respect of the highest paid director:

	2015 £ 000	2014 £ 000
Remuneration	349	347
Company contributions to money purchase pension schemes	1	1
Total compensation	350	348

In the current year the highest paid director received shares in respect of qualifying services under a long-term incentive scheme.

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

The prior year emoluments have been restated to £486,404 (previously disclosed £471,826).

The prior year pension contributions figures have been restated to £18,875 (previously disclosed £17,856).

The prior year remuneration figure has been restated to £347,075 (previously disclosed £343,041).

9 Auditors' remuneration

Auditors' remuneration totalling £241,628 (2014: £214,453*) relates to fees for the audit of the FRS 101 statutory financial statements of the Company and includes fees in relation to the audit of the IFRS Group consolidation schedules, for the purpose of the Centrica plc group audit, which also contribute to the audit of the Company.

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

*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 £214,453 (previously disclosed £141,000).

10 Income tax

Tax charged/(credited) in the income statement

	2015 £ 000	2014 £ 000
Current taxation		
UK corporation tax at 20.25% (2014: 21.49%)	13,521	10,904
Deferred taxation		
Arising from origination and reversal of temporary differences - UK	(901)	4
Tax expense in the income statement	12,620	10,908

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
Profit before tax	65,690	50,805
Tax expense at standard UK rate 20.25% (2014: 21.49%)	13,302	10,918
Effects of:		
Adjustments in respect of prior years	71	-
FRS 101 Pension opening balance adj	-	(7)
Share options	3	(5)
Effects of group relief / other reliefs	(2)	-
Transfer pricing adjustments	2	2
Deferred tax expense (credit) from unrecognised tax loss or credit	(2)	-
Income not taxable	(810)	-
Tax rate changes	56	
Total income tax expense	12,620	10,908

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.

10 Income tax (continued)

Deferred tax

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

	Fixed Assets £ 000	Temporary differences trading £ 000	Pension £ 000	Total £ 000
Prior period opening balance	2	5	(83)	(76)
Charged / (credited) to I/S	(1)	(1)	(10)	(12)
Charged / (credited) to equity	-	-	10	10
31 December 2014	**1**	**4**	**(83)**	**(78)**
Current period opening balance	1	4	(83)	(78)
Prior year adjustment	-	952	-	952
Charged / (credited) to I/S		(83)	33	(50)
Charged / (credited) to OCI	-	-	2	2
31 December 2015	**1**	**873**	**(48)**	**825**

11 Investments in subsidiaries, associates and joint ventures

Investments classified as non-current

Equity investments	Shares in group undertakings (subsidiaries) £ 000	Total £ 000
Cost		
At 1 January 2014	850	850
At 31 December 2014	850	850
At 1 January 2015	850	850
At 31 December 2015	850	850

11 Investments in subsidiaries, associates and joint ventures (continued)

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

Name of subsidiary	Principal activity	Class of shares held	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held 2015	2014
Centrica Energy (Trading) Limited	Agency and arranging services	Ordinary shares	United Kingdom	100%	100%

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

12 Cash and cash equivalents

	2015 £ 000	2014 £ 000
Cash at bank	6,637	11,979

Cash at bank and in hand includes bank balances of £6.6 million (2014: £12.0 million) that primarily represents cash that is required to be held to fulfil exchange requirements.

13 Trade and other receivables

	2015		2014	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Trade receivables	272	-	417	-
Amounts owed by group undertakings	433,562	-	662,359	-
Accrued energy income	503,753	-	518,146	-
Prepayments	1	-	2	-
Other receivables	89,242	-	44,101	-
	1,026,830	-	1,225,025	-

Trade receivables during the current year are all classed as current and none are overdue. Trade receivables in the prior year were all classed as current and none were overdue.

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note 19.

The Company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 18 "Financial risk management and impairment of financial assets".

14 Derivative financial instruments

	2015		2014	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Derivative financial assets	1,696,565	8,652	1,387,269	-
Derivative financial liabilities	(1,595,846)	-	(1,367,622)	-
	100,719	8,652	19,647	-

15 Trade and other payables

	2015		2014	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Trade payables	(11,651)	-	(13,715)	-
Accrued expenses	(431,699)	(4,815)	(596,189)	(4,832)
Amounts owed to group undertakings	(170,102)	-	(145,038)	-
Social security and other taxes	(57)	-	(95)	-
Other payables	(81,194)	-	(109,447)	-
	(694,703)	(4,815)	(864,484)	(4,832)

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note 19.

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 18 "Financial risk management and impairment of financial assets".

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

16 Post-employment benefits

Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the Centrica plc 2015 Annual Report and Accounts.

The CPP and CPS form the significant majority of the Company's defined benefit obligation and are referred to below and in the Centrica plc 2015 Annual Report and Accounts as the 'Registered Pension Schemes'.

Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the Centrica plc 2015 Group financial statements.

16 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities

The amounts recognised in the statement of financial position are as follows:

	2015 Assets £ 000	2015 Liabilities £ 000	2015 Total £ 000	2014 Assets £ 000	2014 Liabilities £ 000	2014 Total £ 000
1 January	4,336	(3,923)	413	4,310	(3,895)	415
Items included in the Profit and Loss Account:						
Current service cost	-	(65)	(65)	-	(64)	(64)
Interest (expense) / income	167	(152)	15	194	(179)	15
Past service credit	-	22	22	-	-	-
Other movements:						
Re-measurement (losses)/gains	(572)	383	(189)	(117)	104	(13)
Employer contributions	73	-	73	60	-	60
Benefits paid from schemes	(107)	107	-	(111)	111	-
31 December	3,897	(3,628)	269	4,336	(3,923)	413

Presented in the statement of financial position as:

	2015 £ 000	2014 £ 000
Defined benefit pension assets	269	413

16 Post-employment benefits (continued)

Analysis of the actuarial gains/(losses) recognised in reserves

	2015 £ 000	2014 £ 000
Actuarial loss (actual return less expected return on pension scheme assets)	(572)	(117)
Experience loss arising on the scheme liabilities	(110)	(7)
Changes in assumptions underlying the present value of the schemes' liabilities	493	111
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(1,613)	(1,600)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(1,802)	(1,613)

Pension scheme contributions

Note 22 to the Centrica plc 2015 Annual Report and Accounts provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012 and 2013. Under IAS 19 Employee Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £54,000 of employer contributions during 2016 at an average rate of 27% of pensionable pay.

The Group is currently finalising the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group is committing additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, has increased from £331 million in 2012 to £1,203 million in 2015 primarily due to the lower discount rate used following falls in market yields. The funding will be provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, paying £77 million in 2016, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, will continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, has also been agreed in support of these arrangements.

Defined contribution pension scheme contributions

The total cost charged to income of £219,000 (2014: £167,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

Centrica Energy Limited

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

16 Post-employment benefits (continued)

Pension scheme assets

Categories of scheme assets are as follows:

	2015			2014		
	Quoted £ 000	**Unquoted £ 000**	**Total £ 000**	**Quoted £ 000**	**Unquoted £ 000**	**Total £ 000**
Equities	1,867,000	219,000	2,086,000	1,931,000	211,000	2,142,000
Property	-	315,000	315,000	-	324,000	324,000
Diversified asset funds	47,000	-	47,000	42,000	113,000	155,000
Asset-backed contribution assets	-	243,000	243,000	-	312,000	312,000
Cash pending investment	60,000	-	60,000	61,000	-	61,000
Liability matching assets	874,000	556,000	1,430,000	1,052,000	415,000	1,467,000
High yield debt	167,000	780,000	947,000	182,000	275,000	457,000
Corporate bonds	1,717,000	-	1,717,000	1,794,000	-	1,794,000
Group pension scheme assets (i)	4,732,000	2,113,000	6,845,000	5,062,000	1,650,000	6,712,000
Company share of the above (£ 000)						
Company share of the above (£'000)	3,897	-	3,897	4,336	-	4,336

(i) Total pension scheme assets for the UK pension schemes.

The overall expected rate of return on assets is a weighted average based on the actual plan assets held in each class and the expected returns on separate asset classes less costs of administering the plan and taxes paid by the plan itself. The returns on separate asset classes are based on the expected median return over a 10-year period (for equities, high yield debt and property) and appropriate market indices (for corporate bonds and liability matching assets). These returns are calculated by the independent company actuary, and adjusted for factors specific to the investment portfolio of the Centrica Combined Common Investment Fund.

17 Capital and reserves

Allotted, called up and fully paid shares

	2015		2014	
	Number	**Value £**	**Number**	**Value £**
Ordinary shares of £1 each	50,000	50,000	50,000	50,000
Preference shares of £1 each	196	196	196	196
Total	**50,196**	**50,196**	50,196	50,196

Other share instruments issued

All Ordinary shares issued are classified as 'equity instruments' in accordance with IAS 32 'Financial instruments: presentation'. Similarly, the preference shares are classified as an equity instruments as they meet the IAS 32 criteria for being classified as such as the redemption option is held by the issuer i.e. the Company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of preference shares are entitled to receive dividends as declared from time to time in priority to any other class of shareholder. On return of capital on winding-up or otherwise, the holders of the participating preference shares will be entitled in priority to any payments to the holders of any other class of shares to the repayments of a sum equal to the nominal capital paid up or credited as paid up on the participating preference shares held by them. They are also entitled to a sum equal to all arrears and accruals (if any) of the said preference dividend irrespective of whether or not such a dividend has been declared or earned or become due and payable, to be calculated down to and including the date of commencement of the winding-up (in the case of a winding-up) or the return of capital (in any other case).

No further participating preference shares shall be issued without the consent in writing of all holders of participating preference shares, but the Company may from time to time create and issue further shares of different class or classes to the participating preference shares.

The rights attaching to the participating preference shares will not be varied or abrogated without the consent in writing of the holders thereof. The issue of further shares will not constitute a variation of the rights attaching to the participating preference shares but any issue of the participating preference shares will constitute such a variation.

Other reserves

The other reserves caption is mainly made of the share-based payments reserve which reflects the obligation to deliver shares to employees under the existing share schemes in return for services provided to the Company.

Retained earnings

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

18 Financial risk management

The Company's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall financial risk management processes are designed to identify, manage and mitigate these risks.

Market risk management
Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates and interest rates). The level of market risk to which the Company is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's physical asset and contract portfolios.

Commodity price risk management
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 2015 was £2.30 million (2014: £0.98 million).

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

Sensitivity Analysis
An analysis of the sensitivity of the Company's financial position and performance to changes in foreign exchange rates has been performed. The Company deems 10% movements in the US Dollar and Euro currency rates relative to pounds sterling, to be reasonably possible. The impact of such movements on profit and equity, both before and after taxation is detailed below.
For the US Dollar, a 10% upward movement would decrease profit by £(168,622) (2014: £(65,157)) and a 10% downward movement would increase profit by £206,093 (2014: £79,636).
For the Euro, a 10% upward movement would decrease profit by £(308,573) (2014: £(170,037)) and a 10% downward movement would increase profit by £377,144 (2014: £207,823).

18 Financial risk management (continued)

Interest rate risk management
Interest rate risk is managed centrally by Centrica plc.

Credit risk management
Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract.

The Company is exposed to credit risk in its trading, energy procurement and downstream activities. The maximum exposure to Counterparty credit risk from financial assets, as a result of trading and energy procurement activities is measured by counterparty credit rating as follows:

	2015			2014		
	Derivative financial instruments with positive fair values	**Receivables from treasury, trading and energy with procurement counterparties**	**Cash and cash equivalents**	Derivative financial instruments with positive fair values	Receivables from treasury, trading and energy with procurement counterparties	Cash and cash equivalents
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
AAA to AA	-	242	6,226	-	125,813	-
AA– to A–	232,107	724,266	-	251,133	605,870	11,514
BBB+ to BBB–	392,399	194,956	410	219,083	247,292	465
BB+ to BB–	295,368	101,893	-	20,669	38,582	-
B or lower	9,412	381	-	1,717	439	
Unrated	775,931	5,092	-	894,667	207,029	-
Total	1,705,217	1,026,830	6,636	1,387,269	1,225,025	11,979

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

The Company uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exists (see table in note under 'Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements' for details of the amounts offset). In addition, the Company employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See below for details of cash posted or received under margin or collateral arrangements.

Liquidity risk management
Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due. 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. Liquidity risk is managed centrally by Centrica plc.

Maturity profiles
Maturities of derivative financial instruments, provisions, borrowings, and trade and other payables are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

18 Financial risk management (continued)

Due for payment 2015	**<1 year £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**>5 years £m**
Energy and interest derivatives in a loss position that will be settled on a net basis	(1)	-	-	-	-	-
Gross energy procurement contracts and related derivatives carried at fair value (i)	(3,135)	(1,061)	(240)	(10)	(1)	-

Due for payment 2014	**<1 year £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**>5 years £m**
Energy and interest derivatives in a loss position that will be settled on a net basis	(2)	-	-	-	-	-
Gross energy procurement contracts and related derivatives carried at fair value (i)	(4,607)	(1,539)	(182)	(4)	-	-

(i) Proprietary energy trades are excluded from this maturity analysis as we do not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date.

The Company's liquidity is impacted by the cash pledged or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Company or by the Company within two days of trade settlement. The table below summarises the movements in margin cash:

	2015	2014
	£m	£m
Net cash pledged as collateral at 1 January	(85.7)	(42.3)
Net cash inflow / (outflow)	72.3	(43.4)
Net cash pledged as collateral at 31 December (i)	(13.4)	(85.7)

(i) Of the net cash collateral pledged, £(75.3) million (2014: £(107.5) million) is included within Trade and other payables and £61.9 million (2014: £21.8 million) within Trade and other receivables.

19 Fair value of financial instruments

Fair value

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

	2015	2014
	Carrying value/ Fair value	Carrying value/ Fair value
	£'000	£'000
Loans and receivables:		
Trade receivables	272	417
Other receivables	89,243	44,103
Accrued energy income	503,753	518,146
Cash and cash equivalents	6,637	11,979
Amounts owed by group undertakings	433,562	662,359
Derivative financial instruments	1,705,217	1,387,269
Total financial assets	**2,738,684**	**2,624,273**
Financial liabilities measured at amortised cost:		
Trade payables	(11,651)	(13,715)
Accrued expense	(436,514)	(601,021)
Other payables	(81,194)	(109,467)
Taxes	(57)	(95)
Amounts owed to group undertakings	(170,102)	(145,308)
Derivative financial instruments	(1,595,846)	(1,367,622)
Total financial liabilities	**(2,295,364)**	**(2,237,228)**

The carrying value of the Company's financial assets and liabilities are approximately equal to their fair value.

Loans and receivables and financial liabilities measured at amortised cost

Due to their nature and/or short term maturity, the fair values of trade and other receivables, cash and cash equilavents, amounts owed by group undertakings, trade and other payables, provisions and amounts owed to group undertakings are estimated to approximate their carrying values.

19 Fair value of financial instruments (continued)

Financial instruments carried at fair value

Determination of fair values and fair value hierarchy

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

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

Fair value hierachy

		Fair value hierarchy	
31 December 2015	**Fair value and carrying value £ 000**	**Level 2 £ 000**	**Level 3 £ 000**
Financial assets at fair value through profit or loss:			
Derivative financial assets - held for trading			
Foreign exchange derivatives	5,637	5,637	-
Energy derivative contracts	1,699,580	1,657,580	42,000
Total financial assets at fair value through profit or loss	1,705,217	1,663,217	42,000
Derivative financial liabilities - held for trading			
Energy derivative contracts	(1,595,846)	(1,553,846)	(42,000)
Total financial liabilities at fair value through profit or loss	(1,595,846)	(1,553,846)	(42,000)
Total financial instruments at fair value	109,371	109,371	-

Centrica Energy Limited

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

19 Fair value of financial instruments (continued)

31 December 2014	**Fair value and carrying value £ 000**	**Level 2 £ 000**	**Level 3 £ 000**
Financial assets at fair value through profit or loss:			
Derivative financial assets - held for trading			
Energy derivative contracts	1,387,269	1,347,128	40,141
Total financial assets at fair value through profit or loss	1,387,269	1,347,128	40,141
Available for sale financial assets:			
Derivative financial liabilities - held for trading			
Energy derivative contracts	(1,367,622)	(1,327,481)	(40,141)
Total financial liabilities at fair value through profit or loss	(1,367,622)	(1,327,481)	(40,141)
Total financial instruments at fair value	19,647	19,647	-

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

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

2015	**Derivatives instruments (assets and liabilities) £ 000**
Level 3 financial instruments	
Total realised and unrealised (losses)/gains:	
31 December	-
Total (losses)/gains for the year for Level 3 financial instruments held at the end of the reporting year	-

19 Fair value of financial instruments (continued)

2014	Derivatives instruments (assets and liabilities) £ 000
Level 3 financial instruments	
Total realised and unrealised (losses)/gains:	
31 December	-
Total (losses)/gains for the year for Level 3 financial instruments held at the end of the reporting year	-

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

Transfers between fair value hierarchy levels are based on the values of the relevant assets and liabilities at the beginning of the reporting period.

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:
• quoted prices in active markets for the same instrument (ie without modification or repackaging) (Level 1);
• quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
• valuation techniques for which any significant input is not based on observable market data (Level 3).

Assessing the significance of a particular input requires judgement. For the purposes of the fair value hierarchy, the Directors have determined Level 2 as the appropriate hierarchy level for all valuations generated from the Company's trading system given that all financial assets and financial liabilities measured and held at fair value mature within the active period. For trades currently assessed using valuation techniques outside the trading system, the Directors have determined Level 3 as the appropriate level.

19 Fair value of financial instruments (continued)

Valuation techniques used to derive Level 2 and 3 fair values and valuation process

Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2015 was 1% per annum (2014: 1% per annum).

For Level 3 energy derivatives, the main input used by the Company pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. The active period for the UK Gas, Power, Coal, Emissions and Oil markets is deemed to be 3 years. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 2% per annum (2014: 1%).

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. Given the relative size of these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Company's profit and loss or total asset value.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations. The price curves are subject to review and approval by the Centrica plc's Investment Sub-Committee and valuations of all derivatives, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available. The amount that has yet to be recognised in the Company Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

	2015	2014
Net deferred (gains)/losses	**£'000**	£'000
1 January	-	-
Net losses deferred on new transactions	-	-
Recognised in the Income Statement during the year	124	-
31 December	**124**	-

Centrica Energy Limited

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

19 Fair value of financial instruments (continued)

Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

				Related amounts not offset in the Company Balance Sheet (i)		
	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the Company Balance Sheet	Net amounts presented in the Company Balance Sheet	Financial instruments	Collateral	Net amount
31 December 2015	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative financial assets	8,150,188	6,444,972	1,705,216	(649,853)	(75,322)	980,041
Derivative financial liabilities	(8,040,818)	(6,444,972)	(1,595,846)	649,853	61,892	(884,101)
Total derivatives	109,370	-	109,370	-	(13,430)	95,940
Balances arising from commodity contracts						
Accrued energy income	4,647,499	3,935,057	712,442	(191,570)	-	520,872
Accruals for commodity costs	(4,660,400)	(3,935,057)	(725,343)	191,570	-	(533,773)

19 Fair value of financial instruments (continued)

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the Company Balance Sheet	Net amounts presented in the Company Balance Sheet	Related amounts not offset in the Company Balance Sheet (i)		
				Financial instruments	Collateral	Net amount
31 December 2014	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative financial assets	6,062,715	4,675,446	1,387,269	(554,386)	(107,966)	724,917
Derivative financial liabilities	(6,043,067)	(4,675,446)	(1,367,621)	554,386	21,800	(791,435)
Total derivatives	19,648	-	19,648	-	(86,166)	(66,518)
Balances arising from commodity contracts						
Accrued energy income	5,952,872	5,090,985	861,887	(184,789)	-	677,098
Accruals for commodity costs	(5,981,490)	(5,090,985)	(890,505)	184,789	-	(705,716)

(i) The Company has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Company Balance Sheet class of asset or liability.

20 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 .

21 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. These movements could impact, amongst other things, the fair value of derivative financial instruments and other assets, the discount rate used to value the Company's Registered Pension Schemes and the carrying value and cost of servicing the Group's debt. 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.

22 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 not been required to adjust any material 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 FRS101 has affected the Company's financial position and financial performance is set out in the following tables as well as the related footnotes.

Centrica Energy Limited

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

22 Transition to FRS 101 (continued)

Balance sheet at 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Non-current assets				
Investments in subsidiaries, joint-ventures and associates	850	-	-	850
Retirement benefit assets	332	81	-	413
Deferred tax assets	-	5	-	5
	1,182	86	-	1,268
Current assets				
Trade and other receivables	1,225,025	-	-	1,225,025
Other financial asset	1,387,269	-	-	1,387,269
Current tax assets	-	2,270	-	2,270
Cash and cash equivalents	11,979	-	-	11,979
Total assets	2,625,455	2,356	-	2,627,811
Current liabilities				
Trade and other payables	(869,090)	4,606	-	(864,484)
Other financial liabilities	(1,367,622)	-	-	(1,367,622)
Current tax liabilities	(8,778)	(2,150)	15	(10,913)
	(2,245,490)	2,456	15	(2,243,019)
Non-current liabilities				
Deferred tax liabilities	(83)	-	-	(83)
Trade and other payables	-	(4,761)	-	(4,761)
Provisions for other liabilities and charges	-	(33)	(38)	(71)
Total liabilities	2,245,573	2,338	23	2,247,934
Capital and reserves				
Share capital	50	-	-	50
Other reserves	919	-	-	919
Retained earnings	378,913	(28)	23	378,908
Total equity	(379,882)	28	(23)	(379,877)

22 **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
Net trading income	80,257	-	80,257
Operating costs	(35,044)		(35,044)
Operating profit	45,213		45,213
Finance income	13,044	-	13,044
Finance cost	(7,414)	(38)	(7,452)
Profit before income tax	50,843	(38)	50,805
Income tax expense	(10,923)	15	(10,908)
Profit for the financial year	**39,920**	**(23)**	**39,897**
Other comprehensive income	-	-	-
Total comprehensive income	**39,920**	**(23)**	**39,897**

Statement of Changes in Equity

	As originally reported 1 January 2014 £ 000	Re-measurement £ 000	As restated 1 January 2014 £ 000	Re-measurement £ 000	As restated 31 December 2014 £ 000
Share capital	50	-	50	-	50
Other reserves	914	-	914	5	919
Retained earnings	339,031	-	339,031	39,877	378,908
Total equity	339,995	-	339,995	39,882	379,877

22 Transition to FRS 101 (continued)

a) Remeasurement

Retirement benefit assets

The assessment of the return on plan assets differs under UK GAAP and IAS 19 (revised). In UK GAAP an expected return of asset percentage (as determined by management having sought advice from an independent actuary) is applied to assets held at the beginning of the accounting period (adjusted for movement in the asset balance in the period). IAS 19 (revised) requires the use of a discount rate applied to a net defined benefit obligation by applying the same discount rate to the opening asset and liability balances again adjusted for movements in the period. The result is a divergence between the expected return on assets as calculated according to each method with an equal opposite effect recorded in actuarial gains/losses. This had the effect of reducing actuarial losses in the year of transition by £38,000 net of tax.

Other

A remeasurement of £15,000 has taken place on the current tax liability for 2014 which comprises £9,000 of pension opening balance adjustments and £6,000 relating to the inclusion of share options.

b) Reclassification

Taxation

A reclassification of £2,270,000 has been recognised in the Statement of Financial Position between tax within current liabilities and tax within current assets. Previously this figure had been shown net within current liabilities. Current tax assets previously netted within liabilities have been presented seperately. There has also been a reclassification of £120,000 between trade payables and current tax assets.

Other

There has been a reclassification of trade payables of £4,761,000 between current liabilities and non current liabilites. There has been a reclassification between non current liabilities and non current assets, with the effect of increasing retirement benefit assets by £81,000 and reducing trade payables by £81,000.