Registration number: 04262250

Centrica PB Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018

Centrica PB Limited

Contents

Centrica PB Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their Strategic Report for Centrica PB Limited (the 'Company') for the year ended 31 December 2018.

Principal activities
The Company operates a 245MW gas-fired open cycle gas turbine generating station in Peterborough ('Peterborough power station').

Review of the business
During 2018, the Company principally earned revenues through selling Short-Term Operating Reserve (STOR) services and Capacity Market (CM) commitments to National Grid under existing contracts which will remain in place until March 2019 and September 2019 respectively.

UK Capacity Market
The UK capacity market for power was designed to encourage investment in reliable capacity to secure future supplies of electricity for the UK. To achieve this, it offered fixed monthly payments to generators who had won capacity market contracts in the auctions, funded by energy suppliers (in proportion to their share of the UK electricity supply market). On 15th November 2018, the European Court of Justice annulled the European Commission's decision not to raise objections to the state aid scheme establishing a capacity market in the UK. This had the effect of placing the UK capacity market in standstill from the start of the current capacity year (commencing 1st October 2018). No payments, either to generators or from suppliers, can be made under the scheme until a new approval is received from the European Commission confirming that the scheme does not breach state aid regulations. As a result, the Company has not recognised any capacity market generator revenue for the period October - December 2018 because these receipts cannot be deemed virtually certain.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101').

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

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

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

Future developments
The Company has successfully secured a capacity market agreement for the 2021/22 contract year.

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

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

Approved by the Board on 16/5/19 and signed on its behalf by:

Samantha Hood

For and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 04262250
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica PB Limited

Directors' Report for the Year Ended 31 December 2018

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

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

Richard McCord

Mark Futyan

Mark Taylor (resigned 30 April 2018)

Results and dividends
The results of the Company are set out on page 8. The loss for the financial year ended 31 December 2018 is £2,016,000 (2017: loss of £21,000). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2017: £nil).

Objectives and policies
The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed.

Exposure in terms of price risk, credit risk, liquidity risk and cash flow risk

Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business. Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly. Liquidity risk is managed through funding arrangements with Group undertakings.

The Company did not take part in hedging of any kind.

Future developments
Future developments are discussed in the Strategic Report on pages 1 to 2.

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

Events after the reporting period
There were no events after the the reporting period.

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

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

Centrica PB Limited

Directors' Report for the Year Ended 31 December 2018 (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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

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

Approved by the Board on 16/5/19 and signed on its behalf by:

Samantha Hood.

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

Company registered in England and Wales, No. 04262250
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Independent Auditors' Report to the Members of Centrica PB Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Centrica PB Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company, which comprise:

- the Income Statement;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the related notes 1 - 19.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

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

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Centrica PB Limited

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

Report on other legal and regulatory requirement

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

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

We have nothing to report in respect of these matters.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

D. Winstone

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Daryl Winstone (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
Date: 16 May 2019

Centrica PB Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	8,252	8,053
Cost of sales	5	(5,392)	(6,685)
Gross profit		2,860	1,368
Operating costs before impairment	5	(1,864)	(1,677)
Exceptional item - impairment of fixed assets	7	(3,833)	-
Operating costs		(5,697)	(1,677)
Other income		25	-
Operating loss		(2,812)	(309)
Finance income	8	627	650
Finance costs	8	(296)	(318)
Net finance income		331	332
(Loss)/profit before income taxation		(2,481)	23
Income tax credit/(expense)	11	465	(44)
Loss for the year		(2,016)	(21)

There were no recognised gains and losses in either period other than those shown above and accordingly no separate statement of comprehensive income has been included in the financial statements.

Centrica PB Limited

Statement of Financial Position as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Property, plant and equipment	12	2,976	6,579
Deferred tax assets	11	2,109	1,763
		5,085	8,342
Current assets			
Trade and other receivables	13	18,557	17,464
Inventories	14	1,114	1,138
Cash and cash equivalents		-	1
		19,671	18,603
Total assets		24,756	26,945
Current liabilities			
Trade and other payables	15	(9,284)	(10,050)
		(9,284)	(10,050)
Current assets		10,387	8,553
Total assets less current liabilities		15,472	16,895
Non-current liabilities			
Trade and other payables	15	(3,658)	(4,002)
Provisions for other liabilities and charges	16	(2,976)	(2,039)
		(6,634)	(6,041)
Net assets		8,838	10,854
Equity			
Called up share capital	17	-	-
Retained earnings		8,838	10,854
Total equity		8,838	10,854

The notes on pages 12 to 27 form an integral part of these financial statements.

Centrica PB Limited

Statement of Financial Position as at 31 December 2018 (continued)

The financial statements on pages 8 to 27 were approved and authorised for issue by the Board of Directors on ....16/5/19.......... and signed on its behalf by:

Richard McCord

....

Richard McCord

Director

Company number 04262250

Centrica PB Limited

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

	Called up share capital £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	-	10,854	10,854
Loss for the year	-	(2,016)	(2,016)
Total comprehensive loss	-	(2,016)	(2,016)
At 31 December 2018	-	8,838	8,838

	Called up share capital £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2017	-	10,875	10,875
Loss for the year	-	(21)	(21)
Total comprehensive loss	-	(21)	(21)
At 31 December 2017	-	10,854	10,854

The notes on pages 12 to 27 form an integral part of these financial statements.

1 General information

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

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

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

2 Accounting policies

Basis of preparation

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

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

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

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

IFRS 9: 'Financial Instruments'

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

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

Impairment

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

2 Accounting policies (continued)

IFRS 15: 'Revenue with contracts from customers'
The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. With the exception of STOR revenue which fell within the scope of IAS17 'Leases' for a short period of time in 2017, all revenue for this Company has been assessed to be within the scope of IFRS15 and this resulted in no changes to amounts previously recognised in the financial statements.

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

• the requirements of IAS 7 'Statement of Cash Flows';

• the statement of compliance with Adopted IFRSs;

• the effects of new but not yet effective IFRSs;

• prior year reconciliations for property, plant and equipment and intangible assets;

• the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;

• disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;

• disclosures in respect of the compensation of key management personnel; and

• disclosures in respect of capital management.

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

• certain disclosures required by IAS 36 'Impairment of Assets' in respect of the impairment of goodwill and indefinite life intangible assets;

• certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value;

• disclosures of the net cash-flows attributable to the operating, investing and financing activities of discontinued operations.

Measurement convention
The financial statements are prepared on the historical cost basis.

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

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.

2 *Accounting policies (continued)*

Revenue recognition

The Company adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. With the exception of STOR revenue which fell within the scope of IAS17 'Leases' for a short period of time in 2017, all revenue for this Company has been assessed to be within the scope of IFRS15 and this resulted in no changes to amounts previously recognised in the financial statements.

Revenue comprises the amount of consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. It is recognised to the extent that it is probable that the Company will be able to collect consideration it will be entitled to in exchange for goods and/or services. Revenue is recognised over time as the Company generates electricity and is measured on the basis of power supplied during the period.

Revenue from ancilliary or support services to National Grid, such as Black Start and Capacity market revenue, is recognised by reference to completion of each performance obligation which is generally as generating capacity is made available.

Revenue is recognised on an accruals basis and is shown net of sales/value added tax, returns, rebates and discounts.

Finance Income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

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

Overhaul costs

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

2 Accounting policies (continued)

Leases

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

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

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

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

Exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the income statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

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

2 Accounting policies (continued)

Taxation

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

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

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

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

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

EU Emissions Trading Schemes and renewable obligation certificates

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

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

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

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

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

Freehold land is not depreciated. Other PP&E are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

2 Accounting policies (continued)

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

Depreciation of PPE

Depreciation is charged as follows:

Asset classes	Depreciation method and rate
Power station assets and decommissioning asset	Straight line, between 3 and 6 years
Buildings	Straight line, between 3 and 6 years
Turbine components, other plant and machinery	Straight line, between 3 and 6 years

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

Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items. Inventories of gas and oil are valued on an average weighted basis, at the lower of cost and net realisable value.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense.

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

Decommissioning costs

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

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

2 Accounting policies (continued)

Impairment

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

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

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

Financial instruments

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

Trade and other receivables

Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for impairment losses. Changes in the Company's impairment policy as a result of the application of IFRS 9 did not result in any material changes. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

Trade and other payables

Trade payables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method. If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

Share capital

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

Cash and cash equivalents

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

2 Accounting policies (continued)

Loans and other borrowings

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

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and the associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. In the Directors' opinion there are no critical judgements, apart from those involving estimations (which are dealt with separately below).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning costs

The estimated cost of decommissioning of power stations is reviewed periodically and is based on price levels and technology at the reporting date. Provision is made for the estimated cost of decommissioning at the reporting date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred in 2023. Details regarding the decommissioning provision can be found in note 16.

On the basis of a recently conducted external review, the decommissioning liabilities have been adjusted upwards by £913,000.

Impairment of long lived assets

The Company has material long-lived assets that are assessed or tested for indicators of impairment at each reporting date in accordance with the Company's accounting policy as disclosed in note 2. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units are recoverable. The key operating assumptions are revenues (in particular, future capacity market, energy and reserve prices), gross margin and operating costs. The Company has also assumed that no Capacity Market revenues will be received for the period of the current capacity market year but that they will resume prospectively from 1 October 2019. Further detail regarding these assumptions can be found in note S2 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

During the year an impairment review was carried out that resulted in an impairment charge of £3,833,000 (2017: £nil) being recognised in the year.

4 Revenue

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

	2018 £ 000	2017 £ 000
Short Term Operating Reserve ('STOR') revenue	6,393	7,121
Black start revenue	620	478
Capacity market revenue	1,175	429
Other revenue	64	-
	8,252	8,053

All revenue relates to the principal activity of the business and occurs wholly in the United Kingdom. Revenue falling outside the scope of IFRS 15 in 2018 amounted to £nil (2017: £3,387,000) and related to the classification of certain of the STOR contracts as falling in the scope of IAS17 'Leases'.

UK Capacity Market

The UK capacity market for power was designed to encourage investment in reliable capacity to secure future supplies of electricity for the UK. To achieve this, it offered fixed monthly payments to generators who had won capacity market contracts in the auctions, funded by energy suppliers (in proportion to their share of the UK electricity supply market). On 15th November 2018, the European Court of Justice annulled the European Commission's decision not to raise objections to the state aid scheme establishing a capacity market in the UK. This had the effect of placing the UK capacity market in standstill from the start of the current capacity year (commencing 1st October 2018). No payments, either to generators or from suppliers, can be made under the scheme until a new approval is received from the European Commission confirming that the scheme does not breach state aid regulations. As a result, the Company has not recognised any capacity market generator revenue for the period October - December 2018 because these receipts cannot be deemed virtually certain.

£1,175,000 was received under this arrangement in 2018 (2017: £429,000).

5 Analysis of costs by nature

	2018 Cost of sales £ 000	2018 Operating costs £ 000	2018 Total costs £ 000	2017 Cost of sales £ 000	2017 Operating costs £ 000	2017 Total costs £ 000
Other cost of sales	4,080	-	4,080	5,343	-	5,343
Other operating expenses	-	1,864	1,864	-	1,677	1,677
Depreciation of tangible fixed assets	681	-	681	711	-	711
Operating lease expense	631	-	631	631	-	631
Total operating costs by nature	5,392	1,864	7,256	6,685	1,677	8,362

6 Employees' costs

The Company has no direct employees (2017: zero). However, central payroll costs amounting to £1,518,000 (2017: £1,532,000) were incurred through a recharge during the year in respect of an average of 16 (2017: 18) staff providing services to Centrica PB Limited under an employee services agreement with a Group company. Also under this agreement additional pension costs of £280,000 (2017: £251,000) have been incurred from the Group company.

7 Exceptional items

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

	2018 £ 000	2017 £ 000
Exceptional items - impairment	3,833	-

During the year an impairment review was carried out to determine whether the carrying amounts of the assets and cash generating units was recoverable. The key operating assumptions used were gross margin, revenues and operating costs. It has also been assumed that no Capacity Market revenues will be received for the period of the current capacity market year but that they will resume prospectively from 1 October 2019. This resulted in an impairment charge of £3,833,000 (2017: £nil) being recognised in the year.

8 Net finance income/cost

Finance income

	2018 £ 000	2017 £ 000
Interest income from amounts owed by Group undertakings	627	650

Finance costs

	2018 £ 000	2017 £ 000
Decommissioning provision notional interest	(24)	(27)
Finance lease charges	(272)	(291)
Total finance costs	(296)	(318)

9 Directors' remuneration

The Directors were remunerated as employees of Centrica plc Group and did not receive any remuneration, from any source, for their services as Directors of the Company during the current or preceding financial year. Accordingly, no details in respect of their emoluments have therefore been included in these financial statements.

10 Auditors' remuneration

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

	2018 £ 000	2017 £ 000
Audit fees	8	8

Auditors' remuneration relates to fees for the audit of the financial statements of the Company.

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

11 Income tax

Tax charged in the Income Statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax at 19% (2017: 19.25%)	(119)	(541)
Deferred taxation		
Adjustment in respect of prior periods	-	82
Changes in tax rates and laws	7	(66)
Origination and reversal of timing differences	(353)	569
Total deferred tax	(346)	585
Tax on profit	(465)	44

The main rate of corporation tax for the year to 31 December 2018 was 19.00% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the profit/(loss) before income tax are reconciled below:

11 Income tax (continued)

	2018 £ 000	2017 £ 000
(Loss)/profit before income tax	(2,481)	23
Tax (credit)/expense at standard UK corporation tax rate of 19.00% (2017: 19.25%)	(471)	4
Effects of:		
Net expenses non-deductible for tax purposes	-	24
Increase in current tax from adjustment for prior periods	(1)	82
Increase arising from group relief tax reconciliation	13	8
Decrease from transfer pricing adjustments	(13)	(8)
Deferred tax income relating to changes in tax rates or laws	7	(66)
Total current tax	(465)	44

Deferred tax

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

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	At 31 December 2018 £ 000
Other items	425	81	506
Accelerated tax depreciation	1,338	265	1,603
Net tax assets	1,763	346	2,109

Deferred tax movement during the prior year:

	At 1January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Other items	507	(82)	425
Accelerated tax depreciation	1,840	(502)	1,338
Net tax assets	2,347	(584)	1,763

The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

11 Income tax (continued)

31 December	2018 £ 000	2017 £ 000
Gross deferred tax balances crystallising within one year	115	305
Gross deferred tax balances crystallising after one year	1,994	1,458
	2,109	1,763
Net deferred tax balances (after offsetting for financial reporting purposes)	2,109	1,763

12 Property, plant and equipment

	Freehold land and buildings £ 000	Power station assets £ 000	Turbines, components, other plant and machinery £ 000	Decommissioning asset £ 000	Total £ 000
Cost or valuation					
At 1 January 2018	3,081	84,857	17,286	2,428	107,652
Additions	-	-	-	913	913
Disposals	-	-	(1,399)	-	(1,399)
At 31 December 2018	3,081	84,857	15,887	3,341	107,166
Accumulated depreciation and impairment					
At 1 January 2018	3,081	83,497	12,432	2,065	101,075
Charge for the year	-	39	487	155	681
Eliminated on disposal	-	-	(1,399)	-	(1,399)
Impairment	-	655	2,162	1,016	3,833
At 31 December 2018	3,081	84,191	13,682	3,236	104,190
Carrying amount					
At 31 December 2018	-	666	2,205	105	2,976
At 31 December 2017	-	1,361	4,855	363	6,579

Impairment

The Company has material long-lived assets that are assessed or tested for indicators of impairment at each reporting date in accordance with the Company's accounting policy as disclosed in note 2. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units are recoverable. The key operating assumptions are revenues (in particular, future capacity market, energy and reserve prices), gross margin and operating costs. The Company has also assumed that no Capacity Market revenues will be received for the period of the current capacity market year but that they will resume prospectively from 1 October 2019. Further detail regarding these assumptions can be found in note S2 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

During the year an impairment review was carried out that resulted in an impairment charge of £3,833,000 (2017: £nil) being recognised in the year.

12 Property, plant and equipment (continued)

Finance Leases

The net book value of assets held under finance lease was as follows:

	Power station assets	Turbines components, other plant and machinery	Total
	£ 000	£ 000	£ 000
At 31 December 2018	350	379	729
At 31 December 2017	659	726	1,385

13 Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Amounts owed by Group undertakings	17,110	15,860
Prepayments	48	48
Accrued energy income	1,399	1,556
	18,557	17,464

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £18,046,000 (2017: £17,082,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72% and 4.13% per annum during 2018 (2017: 3.66 and 3.86%). The non-interest bearing balance comprises a payable of £936,000 (2017: £1,222,000). These two balances were netted, resulting in a net receivable of £17,110,000 (2017: £15,860,000). All amounts owed by Group undertakings are unsecured and repayable on demand.

Also included within the amounts owed by Group undertakings is a corporation tax receivable of £119,000 (2017: £541,000).

14 Inventories

	2018 £ 000	2017 £ 000
Strategic spares and consumables	1,114	1,138

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

15 Trade and other payables

	2018 Current £ 000	2018 Non-current £ 000	2017 Current £ 000	2017 Non-current £ 000
Trade payables	122	-	920	-
Accruals and deferred income	411	-	461	-
Amounts owed to Group undertakings	8,162	-	8,281	-
Value Added Tax	106	-	-	-
EU ETS emissions obligations	139	-	64	-
Obligations under intra-Group finance leases	344	3,658	324	4,002
	9,284	3,658	10,050	4,002

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

Obligations under intra-group finance leases	2018 £ 000	2017 £ 000
Not later than 1 year	344	324
Between 2 and 5 years	1,606	1,511
Later than 5 years	2,052	2,491
	4,002	4,326

The obligations under intra-group finance leases relate to the fixed plant and buildings.

16 Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2018	2,039
Accretion of interest	24
Additions and revisions	913
At 31 December 2018	2,976

Decommissioning provision

The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but is currently anticipated to be incurred in 2023.

On the basis of a recently conducted external review, the decommissioning liabilities have been adjusted upwards by £913,000.

17 Called up share capital

Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary Shares of £1 each	2	2	2	2

18 Commitments and contingencies

Leases as lessee

At 31 December 2018 the Company had annual commitments under non-cancellable operating leases with the following maturity:

	2018 £ 000	2017 £ 000
In over five years	631	631
	631	631

Operating leases are for land and non-essential fixed plant and buildings.

Leases as lessor

The Company received STOR revenue in 2017, some of which, as discussed in Note 4, constituted rental income under operating leases. This income was recognised as earned.

19 Parent and ultimate parent undertaking

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

The ultimate parent undertaking is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.

The address of Centrica plc is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.