Registration number: 05006144

Centrica KPS Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017

Centrica KPS Limited

Contents

Centrica KPS Limited

Strategic Report for the Year Ended 31 December 2017

The Directors present their Strategic Report for Centrica KPS Limited (the 'Company') for the year ended 31 December 2017.

Principal activities
The Company's principal activity in 2017 was the development of energy storage.

Review of the business
Following the sale of the land and assets of the 625MW generating power station at Killingholme, North Lincs ('Killingholme Power Station') in December 2016, the Company retained the 400kV grid connection and an option to acquire a parcel of land from the new owner with a view to building a new battery storage facility.

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 52-62 of the Group's Centrica plc Annual Report and Accounts 2017, 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 KPI's to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 30-31 of the Group's Annual Report and Accounts 2017, which does not form part of this report.

Future developments
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. The Company continues to hold a generation licence and connection agreement.

The Directors are considering the future activities of the Company in light of the strategic review including opportunities for future investments.

Centrica KPS Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

Approved by the Board on 7/9/2018 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. 05006144
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Directors' Report for the Year Ended 31 December 2017

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

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:

Mark Futyan

Richard McCord

Mark Taylor (resigned 30 April 2018)

Results and dividends

The results of the Company are set out on page 8. The profit for the financial year ended 31 December 2017 is £4,045,000 (2016: £8,830,000). No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2016: Nil).

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

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to counterparty credit risk and liquidity risk 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 page 1.

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 reporting period that materially affect the financial statements.

Directors' and officers' liabilities

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year. 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.

Centrica KPS Limited

Directors' Report for the Year Ended 31 December 2017 (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 Kindom 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

Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditor for the financial year commencing 1 January 2017. Consequently, PricewaterhouseCoopers LLP ('PwC') ceased to hold office as auditor of the Company in 2017. Pursuant to Section 519 of the Companies Act 2006, PwC has confirmed that there are no circumstances in connection with their ceasing to hold office that need to be brought to the attention of the members or creditors of the Company.

Following the resignation of PwC as auditors of the Company and, pursuant to section 487 of the Companies Act 2006, Deloitte LLP were appointed as auditors of the Company.

Approved by the Board on 7/9/2018 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. 05006144
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Independent Auditors' Report to the Members of Centrica KPS Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Centrica KPS Limited, which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (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 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 KPS 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 KPS Limited

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

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.

Report on other legal and regulatory requirements

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.

Anthony Matthews

Anthony Matthews FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
2 New Street Square
London
United Kingdom

Date: 13th Sep 18

Centrica KPS Limited

Income Statement for the Year Ended 31 December 2017

	Note	2017 £ 000	2016 £ 000
Revenue	4	8	2,788
Cost of sales	5	-	(3,229)
Gross profit/(loss)		8	(441)
Operating costs before exceptional items	5	(208)	(2,003)
Exceptional item - rates rebate	7	511	962
Exceptional item - revision to abandonment estimate	7	-	3,954
Exceptional item - restructuring	7		185
Exceptional item - profit on disposal of fixed assets	7	-	1,697
Operating income		303	4,795
Other income	8	3	52
Operating profit		314	4,406
Finance income	9	4,760	4,225
Finance costs	9	(59)	(171)
Net finance income		4,701	4,054
Profit before income taxation		5,015	8,460
Income tax (expense)/credit	12	(970)	370
Profit for the year		4,045	8,830

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 KPS Limited

Statement of Financial Position as at 31 December 2017

	Note	2017 £ 000	2016 £ 000
Non-current assets			
Deferred tax assets	12	-	55
		-	55
Current assets			
Trade and other receivables	13	135,938	132,862
		135,938	132,862
Total assets		135,938	132,917
Current liabilities			
Trade and other payables	14	(142,470)	(143,236)
Cash and cash equivalent liabilities		(1)	-
Provisions for liabilities	15	(815)	(1,075)
		(143,286)	(144,311)
Non-current liabilities			
Provisions for liabilities	15	(839)	(838)
Total liabilities		(144,125)	(145,149)
Net liabilities		(8,187)	(12,232)
Equity			
Called up share capital	16	-	-
Accumulated losses		(8,187)	(12,232)
Total equity		(8,187)	(12,232)

The financial statements on pages 8 to 23 were approved and authorised for issue by the Board of Directors on ....7/9/2018... and signed on its behalf by:

Richard McCord

....

Richard McCord

Director

Company number 05006144

Centrica KPS Limited

Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2017	-	(12,232)	(12,232)
Profit for the year	-	4,045	4,045
Total comprehensive income	-	4,045	4,045
At 31 December 2017	-	(8,187)	(8,187)

	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2016	-	(21,062)	(21,062)
Profit for the year	-	8,830	8,830
Total comprehensive income	-	8,830	8,830
At 31 December 2016	-	(12,232)	(12,232)

The notes on pages 11 to 23 form an integral part of these financial statements.

1 General information

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

The 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 pages 1 to 2.

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 2017, the following amendments are effective in the Company's financial statements. Their first time adoption did not have a material impact on the financial statements:

• Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

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

• the requirements of IAS7 '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.

Measurement convention

The financial statements have been prepared on the historical cost basis.

2 Accounting policies (continued)

Going concern
The financial statements have been prepared using the going concern basis of accounting.

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.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

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

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

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.

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.

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

2 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the 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.

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

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

Taxation

Current tax, including UK corporation tax 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.

2 Accounting policies (continued)

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.

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

Depreciation
Depreciation is charged as follows:

Asset class	**Depreciation method and rate**
Power station assets and decommissioning asset	Straight line, up to 20 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.

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.

2 Accounting policies (continued)

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.

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 assets and liabilities

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

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest method (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

2 Accounting policies (continued)

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

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

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

Loans and other borrowings
All interest-bearing (and interest free) loans and other borrowings with banks or and similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments interest-bearing loans and other borrowings are subsequently 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 or other factors that are considered to be relevant. Actual results may differ from these estimates.

In the Directors' opinion there are no critical judgements or key sources of estimation uncertainty.

4 Revenue

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

	2017 £ 000	2016 £ 000
Power station tolling revenue	-	98
Supplementary balancing reserve revenue (SBR revenue)	-	2,686
Other revenue	8	4
	8	2,788

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

Included within the above are rentals receivable under operating leases in relation to availability fees amounting to £nil (2016: £2,207,000).

5 Analysis of costs by nature

	2017 Cost of sales £ 000	2017 Other operating costs £ 000	2017 Total costs £ 000	2016 Cost of sales £ 000	2016 Other operating costs £ 000	2016 Total costs £ 000
Other operating expenses	-	208	208	-	2,003	2,003
Other cost of sales		-		3,229	-	3,229
Total operating costs by nature		208	208	3,229	2,003	5,232

6 Employees' costs

The Company has no direct employees (2016: zero). However, payroll costs amounting to £130,000 (2016: £2,020,000) were incurred through a recharge during the year in respect of a monthly average of 1 (2016: 25) staff providing services to Centrica KPS Limited under an employee services agreement with a Group company. Under this agreement additional pension costs of £12,000 (2016: £286,000) have been incurred from the Group company.

7 Exceptional items

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

	2017 £ 000	2016 £ 000
Rates rebate	511	962
Revision to abandonment estimate	-	3,954
Restructuring provision	-	185
Profit on disposal of fixed assets	-	1,697
	511	6,798

Rates rebate
Following a settlement in March 2017 with the rates office, the Company received a rates rebate of £962,000 which was recognised as an exceptional item in the Income Statement of 2016. In September 2017 a further settlement of £511,000 and this was recognised as an exceptional item in the Income Statement of 2017.

Revision to abandonment estimate
Due to the sale of the power station in December 2016 the decommissioning provision was no longer required. As part of the sale transaction the new owner took on full decommissioning liabilities for the site. This resulted in an exceptional credit of £3,954,000 in the income statement in 2016.

Restructuring provision
In 2015 a restructuring provision was recognised in the financial statements in respect of redundancy costs. The provision was revised in 2016 resulting in an exceptional credit of £185,000 in the income statement. The remaining provision of £319,000 has been fully utilised in 2017.

Profit on disposal of fixed assets
In December 2016 the Power station and land was sold to C.GEN Killingholme Limited. Proceeds of £5,288,000 were received resulting in a profit on disposal of £1,697,000.

8 Other income

The analysis of the company's other income for the year is as follows:

	2017 £ 000	2016 £ 000
Miscellaneous other income	3	52

9 Net finance income/cost

Finance income

	2017 £ 000	2016 £ 000
Interest income from amounts owed by Group undertakings	4,760	4,225

Finance costs

	2017 £ 000	2016 £ 000
Unwind of discount on decommissioning provision	-	(77)
Unwind of discount on onerous provision	(59)	(94)
	(59)	(171)
Net finance income	4,701	4,054

10 Directors' remuneration

The aggregate emoluments paid to directors in respect of their qualifying services were £28,918 (2016: nil) and the aggregate value of company contributions paid to a pension scheme in respect of directors' qualifying services were £2,605 (2016: nil).

There was one director (2016: two) to whom retirement benefits are accruing under a defined benefit pension scheme. There were two directors (2016: two) to whom retirement benefits are accruing under money purchase pension schemes. Two directors (2016: two) received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme and zero directors (2016: zero) exercised share options relating to the ultimate parent company. All of these costs were borne by other Group companies.

11 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements.

	2017 £ 000	2016 £ 000
Audit of the Financial Statements	12	32

Auditors' remuneration relates to fees for the audit of the financial statements of the Company. The prior year audit fee includes both the fee for the statutory audit of the financial statements and an allocation of the audit fee for the Group's consolidated financial statements.

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

12 Income tax

Tax charged/(credited) in the income statement

	2017 £ 000	2016 £ 000
Current tax		
UK corporation tax at 19.25% (2016: 20%)	915	(5,180)
Deferred tax		
Arising from origination and reversal of temporary differences - UK	62	5,341
Arising from changes in tax rates and laws	(7)	(531)
Total deferred taxation	55	4,810
Tax charged/(credited) in the income statement	970	(370)

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:

12 Income tax (continued)

	2017 £ 000	2016 £ 000
Profit before income tax	5,015	8,460
Tax expense/(credit) at standard UK rate 19.25% (2016: 20%)	965	1,692
Effects of:		
Net expenses non-deductible for tax purposes	12	2
Amounts not recognised		(757)
Decrease from effect of revenues exempt from taxation		(776)
Increase arising from group relief tax reconciliation	1,002	1,006
Decrease from transfer pricing adjustments	(1,002)	(1,006)
Deferred tax expense (credit) relating to changes in tax rates or laws	(7)	(531)
Total income tax expense/(credit)	970	(370)

The main rate of corporation tax for the year to 31 December 2017 was 19.25% (2016: 20%). The corporation tax rate will reduce to 17% with effect from 1 April 2020 following the enactment of Finance Act 2016. The deferred tax assets and liabilities included in these financial statements are based on the reduced rate of 17% having regard to their reversal profiles.

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 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	55	(55)	-

Deferred tax movement during the prior year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	4,865	(4,810)	55

There are £nil of deductible temporary differences (2016 - £304,000) and £nil of unused tax losses (2016 - £22,933,000) for which no deferred tax asset is recognised in the statement of financial position.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

13 Trade and other receivables

	2017 Current £ 000	2016 Current £ 000
Amounts owed by Group undertakings	135,938	131,272
Other receivables	-	1,590
	135,938	132,862

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 to by Group undertakings disclosed above is £130,761,000 (2016: £127,712,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.66 and 3.86% per annum during 2017 (2016: 3.04 and 4.04%). The non-interest bearing balance comprises a receivable of £5,177,000 (2016: payable of £3,552,000). 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 £nil (2016: £5,180,000).

14 Trade and other payables

	2017 £ 000	2016 £ 000
Trade payables	9	18
Accrued expenses	138	328
Amounts owed to Group undertakings	142,323	141,407
Value Added Tax	-	1,050
Sale settlement	-	425
EU ETS Emissions obligation	-	8
	142,470	143,236

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

Sale settlement

In December 2016 the power station and land was sold to C.GEN Killingholme Limited. Following the sale agreement £425,000 was paid back to C.GEN Killingholme Limited after the year end to settle a claim over the business rates position. This claim resulted in a reduction to the profit on disposal in the income statement of £425,000.

Also included within the amounts owed to Group undertakings is a corporation tax payable of £916,000 (2016: £nil)

15 Provisions for other liabilities and charges

	Restructuring £ 000	Onerous Contract provision £ 000	Total £ 000
At 1 January 2017	319	1,594	1,913
Accretion of interest	-	60	60
Provisions used	(319)	-	(319)
At 31 December 2017	-	1,654	1,654
Non-current liabilities	-	839	839
Current liabilities	-	815	815

Onerous contract Provision
The Company is contracted to pay for the use of a gas pipeline until October 2018. As the power station has now ceased operation this contract has become onerous, and therefore a provision has been recognised. An invoice for £815,000 has been received in 2018 for the 2016/2017 reconciliation and the remainder is expected to be paid in early 2019.

16 Called up share capital

Allotted, called up and fully paid shares

	2017		2016	
	No.	£	No.	£
Ordinary Shares of £1 each	2	2	2	2

17 Other commitments and contingencies

Other financial commitments

Following the sale of land and assets of hte 625MW power station, the Company retained a liability in relation to the grid connection. In the event of storage development not progressing the estimated costs of decommissioning the substation is between £600,000 and £1,000,000 (2016: £nil).

18 Related undertakings

The Company has related undertakings as follows:

Related undertakings	Principal activity	Country of incorporation	Principal place of business	Class of shares held	Direct investment and voting rights (%)
Killingholme Pensions Limited (i)	Dissolved	United Kingdom	Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD	Ordinary	

(i) Dissolved on 2 February 2017.

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