Financial Statements

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Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Centrica plc (the 'Company') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group Cash Flow Statement; and
- the related notes 1 to 26 and the supplementary notes S1 to S11 of the Group financial statements and notes I to XIV of the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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 auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note S9 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Presentation of the Group income statement; • Impairment of Exploration and Production (E&P) assets and related goodwill and the Group's investment in Nuclear; • Classification, valuation and presentation of energy contracts; and • Credit losses on financial assets within the Group's energy supply businesses ("the bad debt provisions"). Given the current macro-economic environment, particularly conditions arising from the lockdowns due to Covid-19, there is increased risk of bad debt within the Group's energy supply businesses. Consequently this is considered to be a key audit matter this year. The estimation of accrued energy revenue in the UK and North America is no longer considered to be a key audit matter based on the level of estimation uncertainty and that limited errors have been identified in this area within prior year audits. All other key audit matters are consistent with the prior year; the key audit matter relating to the presentation of energy contracts was previously titled "Revenue and cost recognition for derivatives".
Materiality	The materiality that we used for the audit of the Group financial statements was £30m (2019: £42m). This materiality was determined on the basis of a range of metrics including shareholders' equity, operating cash flow and pre-tax profit adjusted for exceptional items and certain re-measurements. Materiality of £30m represents 6.3% of final pre-tax profit adjusted for exceptional items and certain re-measurements, from both continuing and discontinued operations, 2.2% of shareholders' equity and non-controlling interests and 2.1% of operating cash flow.
Scoping	All components of the Group were subject to a full scope audit other than: • New Energy Services (within the Centrica Business Solutions segment), Centrica Storage (within the Upstream segment) and the Group's investment in Nuclear (within the Upstream segment) which were subject to specified audit procedures; and • Direct Energy Services US and Direct Energy Canada which were subject to review procedures. Component materiality levels were set based on the size and audit risk associated with each component on a wider range of applicable metrics.
Significant changes in our approach	Key changes in our approach include a new key audit matter in respect of credit losses of financial assets within the Group's energy supply businesses and updating the basis for determining materiality. We also aligned the identification of components to the Group's new segmental reporting structure.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the Group's 2021 and 2022 cash flow forecasts based on actual cash flow performance in 2020;
- Agreeing the level of committed, undrawn facilities of £3.6bn to signed facility agreements;
- Agreeing the proceeds of $3.625bn received on 5 January 2021, from the sale of Direct Energy to NRG Energy to bank statements and the sale and purchase agreement;
- Recalculating the headroom within the forecasts based on the cash flow forecasts, the undrawn committed facilities and the proceeds received from the sale of Direct Energy to NRG Energy;
- Assessing the sensitivities run by the directors including the linkage of these sensitivities to the Group's principal risks disclosed on page 36 to 39 of the Annual Report & Accounts. These sensitivities include a reduction in the Group's credit rating, a reduction in commodity prices impacting the profitability of the Group's upstream assets and the continuation throughout 2021 of Covid-19 restrictions leading to a decrease in customer cash collection; and
- Assessing the mitigating actions that could be taken by the directors to maximise liquidity headroom including continuing to not pay dividends, a reduction in capital expenditure and a reduction in discretionary spend.

Based on the work performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters include those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	How the scope of our audit responded to the key audit matter

Presentation of the Group Income Statement

The Group Income Statement set out on page 100 of the Annual Report & Accounts segregates Business Performance from Exceptional items and certain re-measurements (the 'Middle Column') in arriving at the results for the year, with additional information disclosed in Note 7. The Group's policy on the presentation of exceptional items and certain re-measurements can be found in notes 2(a) and 2(b). The Audit and Risk Committee also discusses this area in its report on pages 58 to 61.

Business Performance is a critical measure for stakeholders and underpins the Group's segmental analysis and description of business results, and therefore the classification of items between Business Performance and the Middle Column is important for users of the accounts.

The key items included within the Middle column are as follows:

- Re-measurement and settlement of certain energy contracts (£786m);
- Impairment of certain assets (£1,319m);
- Restructuring costs (£154m);
- Pension change net costs (£120m);
- Related net tax credit (£187m); and
- Similar items arising within discontinued operations.

A net credit of £102m has been recognised in the Middle Column relating to discontinued operations (being the Direct Energy business) which includes the re-measurement and settlement of certain energy contracts (£184m), costs relating to the disposal of Direct Energy (£22m) and related tax charges and credits (£60m). The presentation of the results of Direct Energy within discontinued operations is also part of this key audit matter.

The Group has an established policy which governs which items should be recognised in the Middle Column. However, judgement is applied in the application of this policy. This is a key area of focus for our audit. We identified a potential fraud risk in respect of the presentation of restructuring costs within the Middle column.

The valuation and recording of the impairment of certain assets and the valuation and recording of the re-measurement of certain energy contracts are separate key audit matters. Please see pages 92 and 93 for further detail. The presentation of these items within either Business Performance or the Middle Column is, however, addressed within this key audit matter.

Significant restructuring costs were incurred in 2020 in relation to the Group's transformation programme. The costs of this restructuring activity are included within the Middle Column. Pension change costs relating to this restructuring are also included within the Middle Column.

In July 2020, the Group announced it had agreed the sale of Direct Energy to NRG Energy for consideration of $3.625bn. The sale completed on the 5 January 2021. As the sale of Direct Energy represents the sale of a major line of business and geographical area, the results of Direct Energy have been presented as a discontinued operation.

Audit procedures applicable to all items

- We obtained an understanding of relevant controls around the presentation of items within either Business Performance or the Middle Column.
- We evaluated the Group's policy on the recording of items within Business Performance or the Middle Column and considered whether that policy was appropriate. We also evaluated the Group's policy against guidance issued by the Financial Reporting Council (FRC) and the European Securities and Markets Authority (ESMA).
- We challenged Management on the presentation of items within the Middle Column primarily by assessing whether their presentation within the Middle Column was consistently applied in line with the Group's policy and the above guidance, and were appropriately disclosed.

Audit procedures applicable to specific items

- On impairment of certain assets, we challenged Management on the factors that caused the movement in value on each asset by interrogating the underlying impairment models, reviewing the size of the impairment recorded and assessing whether the impairment had been recorded within the correct column. This was done based on both the Group's accounting policies and also its past practice for where impairments are presented and disclosed.
- For restructuring and pension change costs, we evaluated the nature of the costs recorded by Management within the Middle Column, how they are linked to the Group's transformation programme, and challenged whether those costs were correctly reported in line with the Group's policy and appropriately disclosed.
- We evaluated the presentation of the re-measurement of derivative energy contracts based on the nature and purpose of the underlying contract generating the fair value movement. In performing this work, we used data analytics to evaluate the nature of the underlying trade and allocation to the correct column.
- We evaluated the presentation of Direct Energy as a discontinued operation in accordance with *IFRS 5 'Non-current assets held for sale and discontinued operations,'* including how transactions between Direct Energy and the retained Group were presented and accounted for.
- We reviewed the presentation and disclosure of Management's conclusions in the Annual Report & Accounts to assess whether the disclosures are appropriate and consistent with the Group's policy and relevant accounting standards.

Key observations

- The exploration, production and Nuclear asset impairments of £1,123m principally arose from a reduction in forecast gas, oil and power prices and are material in size and therefore under the Group's policy, these impairments are appropriately recorded within the Middle Column.
- Impairments of £72m in respect of the Centrica Home Solutions IT platform and £78m in respect of goodwill within Centrica Business Solutions are material in size and therefore, under the Group's policy these impairments are appropriately recorded within the Middle Column.
- The re-measurement of derivative energy contracts is correctly presented in the Middle Column.
- The majority of restructuring costs relate to the Group's restructuring programme (see page 5 of the Annual Report & Accounts). Costs to deliver this restructuring (including associated pension change costs) are material, relate to significant transformation programmes and are multi-year. Consequently, they are appropriately presented within the Middle Column.
- The presentation of the results of Direct Energy as a discontinued operation is appropriate in accordance with *IFRS 5 'Non-current assets held for sale and discontinued operations'.*

Key audit matter description	How the scope of our audit responded to the key audit matter

Impairment of Exploration and Production (E&P) assets and related goodwill and the investment in Nuclear

The total book value of exploration and production assets is £2,103m and the total book value of the investment in Nuclear is £830m. In addition, goodwill of £414m is recorded in respect of the Group's investment in Spirit Energy. Management have recorded a pre-tax impairment charge of £1,123m against these assets, including £580m on exploration and production assets, £62m against the goodwill in Spirit Energy and £481m on the investment in Nuclear, primarily due to lower forecast long term gas, oil and power prices and operational performance, as disclosed in note 7.

Further details on the key sources of estimation certainty underpinning the impairment of those assets can be found in note 3(b). Details on the sensitivity of the above impairment reviews to changes in key assumptions such as commodity prices are disclosed in Note 7(c). This includes sensitivities associated with the Group's commodity price curves if these curves were aligned with the Paris Accord to limit temperature rises to below 2˚C. The matter is also considered by the Audit and Risk Committee in its report on pages 58 to 61.

The Group holds significant upstream exploration and production assets and a 20% investment in certain of the UK's nuclear power stations, which are required to be reviewed for indicators of impairment and tested for impairment as appropriate.

These assets are subject to the greatest estimation uncertainty, as set out below. They also represent the highest risk of impairment. We therefore identified a risk of material misstatement and a key audit matter that these assets are not recoverable. The impairments recorded in the year were primarily because of a reduction in gas, oil and baseload power prices due to Covid-19 and other market factors.

The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable. The key assumptions and judgements underpinning the impairment reviews of exploration and production assets and the investment in Nuclear include:

- forecast future commodity prices, including the impact of the Paris Accord and climate change on those prices;
- forecast future production or generation profiles of the assets;
- forecast future cash flows for the assets;
- the Group's ability and intent to fund the future development of certain assets;
- estimates of oil and gas reserves specific to each asset;
- availability forecasts in respect of the nuclear power stations;
- useful life estimates; and
- the discount rate.

Procedures on the overall impairment review

- We have understood management's process for identifying indicators of impairment and for performing their impairment assessment.
- We obtained an understanding of the relevant controls relating to the asset impairment models, the underlying forecasting process and the impairment reviews performed.
- We evaluated and challenged the key assumptions and inputs into the impairment models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. We evaluated the current year changes to the key assumptions and assessed retrospectively whether prior year assumptions were appropriate.
- We audited the arithmetical accuracy of the impairment models. We recalculated the impairment charges and headroom and agreed these to financial records.
- We evaluated the impairment judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed.
- We involved our internal valuation specialists to evaluate management's discount rates, which involved benchmarking against available market views and analysis.
- We assessed the adequacy and clarity of management's disclosures of the key assumptions and sensitivities.

Procedures relating to forecast future cash flows

- We confirmed that forecast cash flows were consistent with Board approved forecasts, and analysed reasonably possible downside sensitivities.
- We validated oil and gas production profiles to external reserve and operator estimates and agreed these to the cash flow forecasts.
- We agreed estimates of oil and gas reserves to third-party reserve reports, assessing the competence, capabilities and objectivity of those third-party experts engaged by management.
- We evaluated the Group's estimation of future commodity prices using our own internal experts, benchmarked against externally available future commodity price estimates and performed sensitivity analysis with alternative future prices. This includes a scenario noted as being consistent with achieving the Paris Agreement to limit temperature rises to below 2˚C. We recalculated management's disclosures relating to the sensitivity of the Group's impairment tests to reduced commodity prices, including those that are consistent with the Paris Agreement.
- We assessed the commitment of the Board to fund certain exploration and development activities and challenged whether an impairment of those assets should be recorded where the Board was not committed to providing the required funding.
- We assessed the reasonableness of the nuclear plants' availability forecast and estimated useful lives and sensitised the impact of a change in assumptions on the overall impairment charge.

Key observations

We are satisfied that the key assumptions used to determine the recoverable amount of long-life assets are appropriate, including estimates of reserves, production and generation profiles.

We are also satisfied that the Group's discount rate assumptions are determined based on acceptable valuation methodologies and when considered alongside other key assumptions, are appropriate.

The Group's future commodity price estimates are at the middle of the acceptable range of external sources, consistent with the prior year. We observed that generally none of the forecasts from acceptable external sources for oil and gas were consistent with the assumed impact of the Paris Agreement, with forecasts being above a Paris scenario. We considered the sensitivity disclosures relating to the impact on the Group's impairment reviews of lower future commodity price estimates arising from climate change to be acceptable.

Based on the procedures performed we are satisfied that the Group's impairment charges are appropriate.

Key audit matter description	How the scope of our audit responded to the key audit matter

Classification, valuation and presentation of energy contracts

Details on the Group's energy contracts can be found in note 19 and note S3(a). The key sources of estimation uncertainty associated with energy contracts can be found in note 3(b) with further details on the presentation of certain re-measurement arising on derivatives disclosed in note 2(b). The matter is also considered by the Audit and Risk Committee in its report on pages 58 to 61.

As disclosed in note 7 to the financial statements, certain re-measurements of £786m on energy derivative contracts have been recognised in the current year from continuing operations. In addition, certain re-measurements of £184m were recognised in respect of discontinued operations.

The critical accounting judgement in respect of Liquefied Natural Gas ('LNG') is disclosed in note 3(a) and the long term LNG commitments are disclosed in note 23. The critical accounting judgement in respect of the Cheniere onerous contract assessment is disclosed in note 3(b). These matters are also reported on pages 58 to 61 of the Audit and Risk Committee's report.

The Group undertakes proprietary trading activities and also enters into forward commodity contracts to optimise the value of its production and generation assets as well as to meet the future needs of its customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. Others are treated as "own use" activities as permitted by IFRS 9 Financial Instruments. We identified a key audit matter related to the following:

Valuation of complex commodity trades
We identified the valuation of complex commodity trades as having a risk of material misstatement due to error or fraud. This is because judgement is required in valuing derivative contracts, particularly where there is modelling complexity and bespoke contractual terms (Level 3 in accordance with IFRS 13 Fair Value Measurement).

Own use contracts
Certain commodity contracts have been entered into for the purposes of securing commodities for the energy supply businesses or for selling the Group's commodity production. Where contracts have been entered into to satisfy Centrica's normal business activities, these have been determined to be own-use contracts and consequently are not recorded at fair value. Due to the size and value of these contracts we identified the appropriateness of the own-use treatment as another aspect of this key audit matter.

LNG contracts
The Group does not consider its long term LNG supply contracts to be derivatives because these contracts are entered into for the receipt and delivery of physical commodity in accordance with expected purchase and sales requirements (i.e. are determined to be for the Group's own use). Such contracts are therefore outside the scope of *IFRS 9 Financial Instruments* and are not marked to market. These contracts are significant commitments and therefore this judgement is important and our assessment of this judgement is therefore also part of our key audit matter.

As part of its LNG activities, the Group is committed to purchase LNG from Cheniere Energy Partners LP ('Cheniere') from the Sabine pass liquefaction plant in the US. Following the reduction in gas spreads over 2020, there is a risk that the contract is onerous. The Group has judged this contract not to be onerous because of the combined potential value of the LNG ('intrinsic value') and the Group's options as to where to sell the LNG ('extrinsic value'). This judgement is also part of our key audit matter.

Valuation of complex derivatives

- We understood the Group's processes and controls for authorising and recording commodity trades.
- We have understood management's process and tested the effectiveness of the relevant controls relating to the valuation of complex derivatives within the Group's Energy, Marketing and Trading ('EM&T') business. We also assessed the competence, capability and objectivity of management's own internal valuation specialists.
- In the Group's Direct Energy business, we obtained an understanding of the relevant controls around the valuation of complex derivatives.
- We used financial instrument specialists to assist the audit team in assessing the value of material complex trades, either by creating an independent valuation or by verifying the reasonableness of the model methodology. We also assessed the movement in the fair value based on the change in significant inputs, while auditing each of these inputs.

Own use contracts

- We reviewed all the Group's material 'own use' contracts to determine whether the application of the own use treatment under IFRS 9 was appropriate.
- We audited the prospective and retrospective demand tests performed by the Group to determine whether the contract volumes exceed the amount of estimated own use demand in the relevant periods. This included an evaluation of the contracts for net settlement activity.

LNG contracts

- We assessed whether the Group's LNG contracts meet the definition under IFRS 9 Financial Instruments to be classified as own use including analysing the LNG cargos in the year, assessing whether the cargos delivered were consistent with an own use business and that a past practice of net settling the LNG contracts had not been established.
- We engaged complex valuation specialists to challenge the methodology adopted by management in assessing whether the Cheniere LNG contract is onerous. We assessed the assumptions and judgements in estimating the intrinsic and extrinsic value of the contract. A key assumption are the spreads between Henry Hub, NBP and JKM gas prices which we benchmarked against historic prices and a range of external comparator curves.

Key observations

We are satisfied that commodity trades are valued on a reasonable basis and that the accounting classification and valuation of trades is appropriate.

We are satisfied with the appropriateness of the Group's own use accounting.

We are satisfied with the conclusion that LNG contracts should not be accounted for at fair value because they meet the criteria to be classified as 'own use'.

The headroom calculated by management on the Cheniere LNG contract has been reasonably estimated and the key assumptions adopted, including gas spreads, are reasonable and therefore that the contract is not currently onerous. However, this remains a key judgement and is subject to a number of different variables.

Key audit matter description	How the scope of our audit responded to the key audit matter

Credit losses on financial assets ("bad debt provisions")

Details on the Group's credit risk from continuing operations can be found in note 17 with further information included in note S3. Total financial assets in continuing operations at 31 December 2020 were £3,091m (2019: £3,560m). In addition, financial assets from discontinued operations at 31 December 2020 were £1,536m (2019: £1,510m). Total bad debt charges recorded in the year were £195m (2019: £112m). In addition, bad debt provisions of £90m were recognised from discontinued operations (2019: £85m). Total provisions held against financial assets in continuing operations at 31 December 2020 were £591m (2019: £589m). The key sources of estimation uncertainty associated with bad debt provisions are disclosed in note 3(b). The matter is also considered by the Audit and Risk Committee in its report on pages 58 to 61.

Covid-19 and the uncertain economic environment has led to increased judgement and uncertainty in estimating bad debt provisions, in particular on amounts due from Home and Business energy supply customers in the UK and North America.

Judgement is needed to estimate the timing and impact of an economic downturn and rising unemployment as a result of Covid-19 and how this impacts the ability of customers to pay their bills. Consequently, the bad debt charge recognised by management during the year was considerably higher than during the prior year. Our risk of material misstatement was focused on the accuracy of bad debt provisions and we pinpointed the risk on the additional losses booked by management in response to Covid-19 over and above the "business as usual" estimates.

Our audit approach for bad debt provisions was a combination of data analytics, substantive audit procedures and tests of internal control.

This included understanding the cash collection processes in the UK and US and relevant controls over the recording of bad debt provisions. In the UK, we tested and relied upon controls relevant to the calculation of provisions.

- In the UK, our IT specialists tested the accuracy of the underlying debt books including the age of each debt, and our data analytic specialists recalculated Management's provision rates based on historic cash collection.
- In the US, given the larger number of IT systems, we performed substantive audit procedures to test the accuracy of the underlying debt books. We also assessed historic cash collection and recalculated the overall provisions.

We assessed how amounts receivable in the UK and US held at 31 December 2019 were collected over 2020 in order to calculate an expected profile of the recovery of 31 December 2020 balances and beyond, on a "business as usual basis". We applied this profile to 31 December 2020 debt and then assessed:

  – how cash collection could change, based on the timing and severity of economic and unemployment forecasts; and
  – the resulting impact on bad debt provisions.

Based on the work done, we assessed the range of possible outcomes and how management's provisions compared to this.

We also assessed management's disclosures of this key source of estimation uncertainty, and the range of sensitivities disclosed.

Key observations

- We are satisfied that the Group's bad debt provisions are within an acceptable range and that the disclosures noted above are appropriate.

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£30 million (2019: £42 million)	£28 million (2019: £40 million)
Basis for determining materiality	We determined materiality on the basis of a range of applicable metrics including adjusted profit before exceptional items and certain re-measurements, net assets and operating cash flow. The range was £43m-£14m. Materiality selected represents 6.3% of final pre-tax profit adjusted for exceptional items and certain re-measurements (from both continuing and discontinued operations), 2.2% of net assets and 2.1% of operating cash flow. In the prior year materiality was based on pre-tax profit adjusted for exceptional items and certain re-measurements, and represented 6% of this metric. It also represented 2.3% of net assets and 3.4% of operating cash flow.	We determined company materiality based on 1% (2019: 1%) of estimated net assets but capped materiality at 95% of Group materiality. Our final materiality constituted 0.6% of net assets (2019: 0.7% of net assets).
Rationale for the benchmark applied	We consider it appropriate to consider a range of applicable metrics in establishing materiality, because of the complexity of the income statement arising from significant exceptional items, re-measurements and discontinued operations, and the importance of cash flow and balance sheet metrics to users of the financial statements. This also reflects the impact of Covid-19 on pre-tax profit adjusted for exceptional items and certain re-measurements, which would have reduced materiality to a level which would not have reflected the size and scale of the Group. We considered our established materiality against the final audit results, and concluded that it remained appropriate in the context of the financial statements as a whole.	We considered net assets to be the most appropriate benchmark given the primary purpose of the company is a holding company.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2019: 70%) of Group materiality	70% (2019: 70%) of Company materiality
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality at 70% of Group and Company materiality included: • The overall quality of the control environment noting no significant control deficiencies have been identified in the year and that we were able to rely on controls in certain of the Group's businesses including within British Gas and Spirit. • The nature, size and number of uncorrected misstatements identified in previous audits and management's willingness to correct those adjustments.	

Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all individual audit differences in excess of £5m (2019: £5m) and in aggregate all audit differences in excess of £1.5m (2019: £2.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

The Group is organised into segments as outlined in note 4 across the UK, North America and Europe. These segments contain a number of individual businesses, and we use these businesses as the basis for identifying and scoping components. During 2020, as part of the Group's restructuring programme, these segments were amended, however there was no substantial change in the underlying businesses.

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Having performed this assessment, it was concluded on the following audit scope for each of the Group's businesses.

Segment	Business	Audit scope
British Gas	British Gas Energy	Full scope audit
	British Gas Services	Full scope audit
	Centrica Hive	Full scope audit
Bord Gáis Energy	Bord Gáis Energy	Full scope audit
Energy, Marketing & Trading	Energy, Marketing & Trading	Full scope audit
Centrica Business Solutions	Energy supply	Full scope audit
	New Energy solutions	Audit of specified account balances
Upstream	Nuclear	Audit of specified account balances
	Spirit Energy	Full scope audit
	Centrica Storage	Audit of specified account balances
Direct Energy (Discontinued operation)	Direct Energy Business	Full scope audit
	Direct Energy Home US	
	Direct Energy Home Canada	Review scope
	Direct Energy Home Services	

We concluded that the following components were each individually not financially significant:

- New Energy Services (within the Centrica Business Solutions segment);
- Centrica Storage (within the Upstream segment); and
- Direct Energy Home Services US and Direct Energy Home Energy Canada (within the Direct Energy segment).

As such, we performed specified audit procedures over relevant audit risks in New Energy Services and Centrica Storage and review procedures within Direct Energy Home Services US and Direct Energy Home Canada. We also performed an audit of specified account balances on the Group's investment in Nuclear.

This scoping resulted in 95% of Group revenue, 99% of Group profit before tax and 90% of Group net assets being subject to audit.

Our consideration of the control environment

Our audit strategy is to rely on controls over certain processes within the more mature businesses of the Group. These included: revenue within British Gas, Bord Gáis Energy and Spirit Energy; credit loss provisions in British Gas; and the Group's central payroll and expenditure processes.

We did not rely on controls in Direct Energy given the large number of IT systems and that the business primarily relies on manual review controls. The use of data analytics in Energy, Marketing and Trading means the need for controls reliance is reduced as we are able to test close to 100% of all transactions.

Given the importance of IT to the recording of financial information and transactions, we assessed the design and implementation of general IT controls, and placed reliance on those controls in certain areas. The key IT systems we included in scope includes the Group's SAP general ledger and consolidation financial reporting systems, the SAP revenue reporting systems in British Gas, Spirit Energy and Bord Gáis, the Endur trading system in Energy, Marketing and Trading and Workday used to manage the Group's payroll processes. We also included in scope the key billing and trading systems within Direct Energy.

Working with other auditors

All components except for Direct Energy and Bord Gáis Energy are audited from the United Kingdom and we oversee all component audits through regular meetings and direct supervision.

Due to Covid-19 and the restrictions on travel, we were not able to visit either the US or Ireland during the year, or the UK component teams. We consequently held a 3-day virtual planning meeting with all component teams and specialists to discuss our risk assessment (including risks of material misstatement due to fraud) and audit execution.

The Group audit team was directly involved in overseeing the component audit planning and execution, through frequent conversations, virtual team meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our component audit teams, attended audit closing meetings, and reviewed their audit working papers. We are satisfied that the level of involvement of the lead audit partner and team in the component audits has been extensive, despite the restrictions from Covid-19 and the impact of remote working, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. This other information comprises the Strategic report, the Directors' and Corporate Governance report, the Committee reports, the Remuneration Report and the Other Statutory information. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- The Group's own assessment of the risks that irregularities may occur either as a result of fraud or error including the Group's fraud risk programme;
- results of our enquiries of management, internal audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, treasury and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- The presentation of restructuring costs, as the presentation of these can impact the reporting of profit before exceptional items and certain re-measurements, which is the Group's primary performance measure;
- The valuation of complex derivatives given the inherent risk of bias in the valuations calculated; and
- Credit losses on financial assets given the inherent judgement in the current economic environment.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, the UK Listing Rules and pensions and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the Office of Gas and Electricity Markets (Ofgem) and Regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

As a result of performing the above procedures, we identified the following as key audit matters related to the potential risk of fraud: (a) the presentation of the group income statement, (b) the classification, valuation and presentation of energy contracts and (c) credit losses on financial assets within the Group's energy supply businesses. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee, in-house legal counsel and the Group's ethics team concerning actual and potential litigation and claims;
- reviewing the reporting to the Audit and Risk Committee on matters relating to fraud and potential non-compliance with laws and regulations including the Group's whistleblowing programme;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofgem, the FCA and the PRA.
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 154 in note 24(b)
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 40 and 41.
- the directors' statement on fair, balanced and understandable set out on page 57
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 35
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on 56; and
- the section describing the work of the Audit and Risk Committee set out on pages 55 to 61.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the Shareholders on 22 May 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2017 to 31 December 2020.

Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

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 auditor's 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.

James Leigh FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
24 February 2021

Group Income Statement

Year ended 31 December	Notes	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Results for the year £m	2019 (restated) (i) Business performance £m	2019 (restated) (i) Exceptional items and certain re-measurements £m	2019 (restated) (i) Results for the year £m
Continuing operations							
Group revenue	4	**14,949**	**(2,700)**	**12,249**	15,958	(2,964)	12,994
Cost of sales	5	**(12,616)**	**4,118**	**(8,498)**	(13,124)	4,766	(8,358)
Re-measurement and settlement of energy contracts	7	**–**	**(632)**	**(632)**	–	(2,111)	(2,111)
Gross profit/(loss)		**2,333**	**786**	**3,119**	2,834	(309)	2,525
Operating costs before exceptional items and credit losses on financial assets	5	**(1,714)**	**–**	**(1,714)**	(2,060)	–	(2,060)
Credit losses on financial assets	5, 17	**(195)**	**–**	**(195)**	(112)	–	(112)
Exceptional items – impairments	7	**–**	**(1,319)**	**(1,319)**	–	(919)	(919)
Exceptional items – restructuring costs	7	**–**	**(154)**	**(154)**	–	(323)	(323)
Exceptional items – net pension change (charge)/credit	7	**–**	**(120)**	**(120)**	–	152	152
Exceptional items – net loss on significant disposals	7	**–**	**–**	**–**	–	(33)	(33)
Operating costs	5	**(1,909)**	**(1,593)**	**(3,502)**	(2,172)	(1,123)	(3,295)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	6, 7	**23**	**(2)**	**21**	(12)	(1)	(13)
Group operating profit/(loss)	4	**447**	**(809)**	**(362)**	650	(1,433)	(783)
Net finance cost	8	**(215)**	**–**	**(215)**	(251)	–	(251)
Profit/(loss) from continuing operations before taxation		**232**	**(809)**	**(577)**	399	(1,433)	(1,034)
Taxation on profit/(loss) from continuing operations	7, 9	**(42)**	**187**	**145**	(142)	132	(10)
Profit/(loss) from continuing operations after taxation		**190**	**(622)**	**(432)**	257	(1,301)	(1,044)
Discontinued operations (ii)	7, 12	**213**	**102**	**315**	171	(230)	(59)
Profit/(loss) for the year		**403**	**(520)**	**(117)**	428	(1,531)	(1,103)
Attributable to:							
Owners of the parent		**378**	**(337)**	**41**	419	(1,442)	(1,023)
Non-controlling interests		**25**	**(183)**	**(158)**	9	(89)	(80)

Earnings per ordinary share		2020 Pence	2019 Pence
From continuing and discontinued operations			
Basic	10	**0.7**	(17.8)
Diluted	10	**0.7**	(17.8)
From continuing operations			
Basic	10	**(4.7)**	(16.8)
Diluted	10	**(4.7)**	(16.8)
Interim dividend paid per ordinary share	11	**–**	1.50
Final dividend per ordinary share	11	**–**	–

(i) Prior year results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3.
(ii) Profit/(loss) from discontinued operations is entirely attributable to equity holders of the parent.

The notes on pages 105 to 193 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2020 £m	2019 £m
Loss for the year		**(117)**	(1,103)
Other comprehensive income/(loss)			
Items that will be or have been reclassified to the Group Income Statement:			
Impact of cash flow hedging (net of taxation)	S4	**9**	(4)
Exchange differences on translation of foreign operations		**(54)**	(126)
Exchange differences reclassified to Group Income Statement on disposal	12	**12**	(18)
Gains on net investment hedging (net of taxation) (i)	S4	**40**	–
Items that will not be reclassified to the Group Income Statement:			
Net actuarial losses on defined benefit pension schemes (net of taxation)	S4	**(379)**	(387)
(Losses)/gains on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)	S4	**(4)**	2
Share of other comprehensive income of associates, net of taxation	14, S4	**58**	29
Other comprehensive loss, net of taxation		**(318)**	(504)
Total comprehensive loss for the year		**(435)**	(1,607)
Attributable to:			
Owners of the parent		**(277)**	(1,511)
Non-controlling interests	S11	**(158)**	(96)
Total comprehensive (loss)/income attributable to owners of the parent arises from:			
Continuing operations		**(571)**	(1,386)
Discontinued operations		**294**	(125)
		(277)	(1,511)

(i) The Group recommenced its strategy of net investment hedging in advance of the disposal of Direct Energy. See note S2 for details.

The notes on pages 105 to 193 form part of these Financial Statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2019	354	2,240	725	(174)	3,145	803	3,948
Loss for the year	–	–	(1,023)	–	(1,023)	(80)	(1,103)
Other comprehensive loss	–	–	–	(488)	(488)	(16)	(504)
Employee share schemes and other share transactions	–	–	(10)	53	43	–	43
Scrip dividend (note 11)	6	90	–	–	96	–	96
Dividends paid to equity holders (note 11)	–	–	(561)	–	(561)	–	(561)
Distributions to non-controlling interests	–	–	–	–	–	(124)	(124)
31 December 2019	360	2,330	(869)	(609)	1,212	583	1,795
Profit/(loss) for the year	–	–	41	–	**41**	(158)	**(117)**
Other comprehensive loss	–	–	–	(318)	**(318)**	–	**(318)**
Employee share schemes and other share transactions	1	17	(8)	12	**22**	–	**22**
31 December 2020	**361**	**2,347**	**(836)**	**(915)**	**957**	**425**	**1,382**

The notes on pages 105 to 193 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment	13	**2,643**	3,133
Interests in joint ventures and associates	14	**843**	1,306
Other intangible assets	15	**1,011**	1,455
Goodwill	15	**929**	2,578
Deferred tax assets	16	**636**	553
Trade and other receivables, and contract-related assets	17	**145**	154
Derivative financial instruments	19	**366**	493
Retirement benefit assets	22	**–**	56
Securities	24	**134**	131
		6,707	9,859
Current assets			
Trade and other receivables, and contract-related assets	17	**2,801**	4,839
Inventories	18	**324**	431
Derivative financial instruments	19	**1,224**	1,320
Current tax assets		**132**	115
Securities	24	**–**	124
Cash and cash equivalents	24	**1,820**	1,342
		6,301	8,171
Assets of disposal groups classified as held for sale	12	**4,111**	124
		10,412	8,295
Total assets		**17,119**	18,154
Current liabilities			
Derivative financial instruments	19	**(747)**	(1,854)
Trade and other payables, and contract-related liabilities	20	**(3,722)**	(5,533)
Current tax liabilities		**(235)**	(339)
Provisions for other liabilities and charges	21	**(188)**	(284)
Bank overdrafts, loans and other borrowings	24	**(787)**	(857)
		(5,679)	(8,867)
Liabilities of disposal groups classified as held for sale	12	**(1,986)**	(18)
		(7,665)	(8,885)
Non-current liabilities			
Deferred tax liabilities	16	**(149)**	(151)
Derivative financial instruments	19	**(181)**	(291)
Trade and other payables, and contract-related liabilities	20	**(114)**	(152)
Provisions for other liabilities and charges	21	**(2,438)**	(2,175)
Retirement benefit obligations	22	**(601)**	(219)
Bank loans and other borrowings	24	**(4,589)**	(4,486)
		(8,072)	(7,474)
Total liabilities		**(15,737)**	(16,359)
Net assets		**1,382**	1,795
Share capital	25	**361**	360
Share premium		**2,347**	2,330
Retained earnings		**(836)**	(869)
Other equity	S4	**(915)**	(609)
Total shareholders' equity		**957**	1,212
Non-controlling interests	S11	**425**	583
Total shareholders' equity and non-controlling interests		**1,382**	1,795

The Financial Statements on pages 100 to 193, of which the notes on pages 105 to 193 form part, were approved and authorised for issue by the Board of Directors on 24 February 2021 and were signed below on its behalf by:

Chris O'Shea
Group Chief Executive

Kate Ringrose
Group Chief Financial Officer

Centrica plc Registered No: 03033654

Group Cash Flow Statement

Year ended 31 December	Notes	2020 £m	2019 (restated) (i) £m
Continuing operations:			
Group operating loss including share of results of joint ventures and associates		**(362)**	(783)
(Deduct)/add back share of (profits)/losses of joint ventures and associates, net of interest and taxation	6	**(21)**	13
Group operating loss before share of results of joint ventures and associates		**(383)**	(770)
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**2,217**	2,143
Loss/(profit) on disposals		**28**	(32)
Increase/(decrease) in provisions		**46**	(21)
Cash contributions to defined benefit schemes in excess of service cost income statement charge		**(42)**	(493)
Employee share scheme costs		**34**	30
Unrealised (gains)/losses arising from re-measurement of energy contracts		**(666)**	207
Exceptional charges reflected directly in operating profit		**49**	220
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges		**1,283**	1,284
Decrease/(increase) in inventories		**4**	(28)
Decrease in trade and other receivables and contract-related assets relating to business performance		**363**	240
Decrease in trade and other payables and contract-related liabilities relating to business performance		**(571)**	(182)
Operating cash flows before payments relating to taxes and exceptional charges		**1,079**	1,314
Taxes paid	9	**(2)**	(80)
Payments relating to exceptional charges in operating costs		**(120)**	(264)
Net cash flow from continuing operating activities		**957**	970
Net cash flow from discontinued operating activities		**443**	280
Net cash flow from operating activities		**1,400**	1,250
Continuing operations:			
Purchase of businesses, net of cash acquired		**–**	(27)
Sale of businesses	12	**43**	63
Purchase of property, plant and equipment and intangible assets	4	**(489)**	(757)
Sale of property, plant and equipment and intangible assets		**–**	6
Investments in joint ventures and associates	14	**(10)**	(1)
Dividends received from joint ventures and associates	14	**62**	1
Receipt of sub-lease capital payments	24	**3**	3
Interest received		**7**	11
Settlement and sale of securities	24	**121**	50
Net cash flow from continuing investing activities		**(263)**	(651)
Net cash flow from discontinued investing activities		**(22)**	148
Net cash flow from investing activities		**(285)**	(503)
Continuing operations:			
Payments for own shares	S4	**(30)**	–
Proceeds from sale of forfeited share capital		**–**	2
Distribution to non-controlling interests		**–**	(124)
Financing interest paid		**(202)**	(238)
Repayment of borrowings and capital element of leases		**(234)**	(227)
Equity dividends paid		**–**	(471)
Net cash flow from continuing financing activities		**(466)**	(1,058)
Net cash flow from discontinued financing activities		**(16)**	(19)
Net cash flow from financing activities		**(482)**	(1,077)
Net increase/(decrease) in cash and cash equivalents		**633**	(330)
Cash and cash equivalents including overdrafts at 1 January		**794**	1,128
Effect of foreign exchange rate changes		**(34)**	(4)
Cash and cash equivalents including overdrafts at 31 December	24	**1,393**	794
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**1,820**	1,342
Overdrafts included within current bank overdrafts, loans and other borrowings		**(534)**	(548)
Assets of disposal groups classified as held for sale		**107**	–

(i) Prior year results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3.

The notes on pages 105 to 193 form part of these Financial Statements.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

The notes to these Financial Statements focus on areas that are key to understanding our business. Additional information that we are required to disclose by accounting standards or regulation is disclosed in the Supplementary Information (notes S1 to S11).

In addition, for clarity, notes begin with a simple introduction outlining its purpose.

1. Basis of preparation and summary of significant new accounting policies and reporting changes

This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2020 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). Unless otherwise stated, these policies have been consistently applied to the years presented.

(a) Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated Financial Statements have been prepared on the historical cost basis except for: certain gas and oil inventory, derivative financial instruments, financial instruments required to be measured at fair value through profit or loss or other comprehensive income, and those financial instruments so designated at initial recognition, and the assets of the Group's defined benefit pension schemes that have been measured at fair value; the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying values of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(b) New accounting policies, standards, amendments and interpretations effective or adopted in 2020

From 1 January 2020, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- Amendments to IFRS 3: 'Business combinations';
- Amendments to IAS 1: 'Presentation of financial statements' and IAS 8: 'Accounting policies, changes in accounting estimates and errors'; and
- Conceptual Framework for Financial Reporting 2018.

The amendments to IFRS 3 modify the definition of a business in order to assist entities in determining whether an acquisition falls within the scope of the standard.

The amendments to IAS 1 and IAS 8 clarify the definition and application of the materiality concept in financial reporting.

The amendments to the Conceptual Framework make a number of clarifications and modifications to the concepts underpinning IFRS.

These changes and other amendments effective during the year did not materially impact the consolidated Financial Statements.

As a result of the economic impacts of the COVID-19 pandemic, a number of government programmes have been put into place to support businesses and consumers. Examples of such initiatives include the UK's Coronavirus Job Retention Scheme. In accounting for the impacts of these measures, the Group has applied IAS 20: 'Government grants'. Under the Group's accounting policy, grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and that the grant will be received. Government grants are recognised in the Group Income Statement on a systematic basis over the periods in which the related costs that they are intended to compensate are recognised. Grants related to income are deducted in reporting the related expense and are therefore presented net in the Group Income Statement. Government grants received in advance of the Group meeting the criteria for recognition in the Group Income Statement are deferred and presented within Trade and other payables. There is no impact of this policy on prior periods.

During 2020, the Group recognised an amount totalling £27 million receivable under the UK Government's Coronavirus Job Retention Scheme. This has been presented net in Cost of sales and Operating costs before exceptional items and credit losses on financial assets in the Group Income Statement. Additionally, under a customer support programme introduced by the Government of Alberta in Canada, the Group recognised a reduction in credit losses for receivables amounting to £4 million. A further £1 million was received under a Texas customer support programme. The amounts relating to North America have been presented net in discontinued operations costs. In Denmark a mandatory, temporary deferral of sales tax payments gave rise to a delay in cash outflows amounting to £158 million during 2020. There was no impact of this deferral at 31 December 2020, with sales tax having been paid according to the normal requirements by the year end.

1. Basis of preparation and summary of significant new accounting policies and reporting changes

(c) Standards and amendments that are issued but not yet applied by the Group

At the date of authorisation of these consolidated Financial Statements, the Group has not applied the following new and revised standards and amendments that have been issued but are not yet effective:

- IFRS 17: 'Insurance contracts', effective from 1 January 2023;
- Amendments to IAS 37; 'Provisions, Contingent Liabilities and Contingent Assets', effective from 1 January 2022;
- Amendments to IAS 1: 'Presentation of financial statements', effective from 1 January 2023;
- 'Annual Improvements to IFRS 2018-2020', effective 1 January 2022; and
- 'Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16', effective from 1 January 2021.

IFRS 17 will not be effective before 1 January 2023. The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. Under IFRS 17, subject to certain conditions, there is an accounting policy choice to account for these contracts under IFRS 17 or IFRS 15, which is being evaluated as part of the implementation project. Work is ongoing to determine the full impact of application.

The amendments to IAS 1 clarify the meaning of settlement in the context of liabilities, and the circumstances in which liabilities are classified as current or non-current.

The amendments to IAS 37 specify the costs that an entity should include when assessing whether a contract is onerous and therefore requires a provision.

The Group does not expect a significant financial reporting impact to arise as a result of the changes to IAS 1 and IAS 37 or the Annual Improvements to IFRS.

Amendments to IFRS made as a result of Phase 2 of the International Accounting Standards Board's project on interest rate benchmark reform provide relief from the discontinuation of hedge accounting that might otherwise be required on the transition to alternative rates in the hedged item or hedging instrument.

The amendments also provide relief from the immediate recognition of gains or losses in the income statement where changes to contractual cash flows in leases or financial assets and liabilities are required as a result of interest rate benchmark reform.

The Group holds interest rate derivatives in hedging relationships and is currently assessing the changes that will need to be made to these as a result of interest rate reform. The Group does not expect a significant financial reporting impact to arise as a result of these changes.

Management does not expect other issued but not effective amendments or standards, or standards not discussed above to have a material impact on the consolidated Financial Statements.

(d) Restatements

The Group has redefined its operating segments during the year to reflect the way in which the business is now organised. Operating segments are now defined as:

- British Gas;
- Energy Marketing & Trading;
- Centrica Business Solutions;
- Bord Gáis Energy; and
- Upstream

The revised operating segments incorporate related products and services, as well as the major factors that influence the performance of these products and services. Following the restructuring of the Group these revised segments reflect the information and reporting Management receive to enable them to make decisions on performance and strategy. Further information on the operating segments of the Group is shown at note 4.

As described in note 3, the disposal of the Group's North American Direct Energy business, which completed on 5 January 2021, has led to the classification of Direct Energy as a discontinued operation. Comparatives in the Group Income Statement and Group Cash Flow Statement have been restated accordingly.

2. Centrica specific accounting measures

This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

(a) Use of adjusted performance measures

The Directors believe that reporting adjusted measures (revenue, margin, profit, earnings per share and cash flow) provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes, are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

Management uses adjusted revenue, gross margin and adjusted operating profit to evaluate segment performance. They are defined as revenue/gross margin/operating profit before:

- exceptional items; and
- certain re-measurements.

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. See section (b) of this note for further details.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation; and
- certain re-measurements net of taxation.

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 10.

Free cash flow is used by management to assess the cash generating performance of each segment. Segmental free cash flow is defined as net cash flow from operating and investing activities before:

- deficit reduction payments made to the UK defined benefit pension schemes;
- movements in variation margin and collateral that are included in net debt;
- interest received;
- sale, settlement and purchase of securities; and
- taxes paid and refunded.

Segmental free cash flow as assessed by management excludes cash flows relating to tax. This is because the effect of group relief and similar reliefs could distort the measure of segment performance. As a Group-wide measure, free cash flow includes taxes paid and refunded.

Free cash flow gives a measure of the cash generation performance of the business after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in variation margin and collateral, which are predominantly triggered by wider market factors and, in the case of collateral and margin movements, represent timing differences, free cash flow gives a measure of the underlying performance of the Group.

Interest received and cash flows from the sale, settlement and purchase of securities are excluded from free cash flow as these items are included in the Group's net debt measure, and are therefore viewed by the Directors as related to the manner in which the Group finances its operations.

(b) Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide users with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets and contracts (and similar capacity or off-take arrangements), as well as to meet the future needs of its customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement, they are prohibited from being designated as 'own use' and so IFRS 9: Financial Instruments requires them to be individually fair valued.

Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in revenue in the business performance column of the Group Income Statement.

The Group's result for the year presents both realised and unrealised fair value movements on all derivative energy contracts within the 'Re-measurement and settlement of energy contracts' line item.

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. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings (including property rationalisation costs), significant onerous contract charges/releases, debt repurchase costs, certain pension past service credits/costs, asset impairments/write-backs, the tax effects of these items and the effect of changes in UK upstream tax rates.

The Group distinguishes between business performance asset impairments/write-backs and exceptional impairments/write-backs on the basis of the underlying driver of the impairment, as well as the magnitude of the impairment. Drivers that are deemed to be outside of the control of the Group (e.g. commodity price changes) give rise to exceptional impairments. Additionally, impairment charges that are of a one-off nature (e.g. reserve downgrades or one-time change in intended use of an asset) and significant enough value to distort the underlying results of the business are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are reflected in business performance.

3. Critical accounting judgements and key sources of estimation uncertainty

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

In addition to the judgements described above, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the consolidated Group Financial Statements.

Spirit Energy consolidation

During 2017, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing exploration and production business to form the Spirit Energy business (SE). The Group, through its board majority, can control decisions that represent Board Reserved Matters and the Directors consider that these rights provide control over the relevant activities that most significantly influence the variable returns of the SE business. The Group has concluded that it controls SE and consequently SE is fully consolidated with a non-controlling interest of 31%.

Metering contracts

In previous years, as part of the smart meter roll-out, the Group renewed meter rental arrangements with third parties. The Group assessed that these were not leases under IAS 17 and IFRIC 4 because at inception of the contract there were no specified assets, the Group did not have the right to physically or operationally control the smart meters and other parties took more than an insignificant amount of the output from the assets. This assessment was grandfathered on adoption of IFRS 16.

A reassessment of the contracts was performed in accordance with IFRS 16, following renegotiations of the meter rental arrangements during 2019 and 2020. On the basis that the asset has a predetermined use and the Group neither has the right to operate the asset, nor was involved in its design, the conclusion that these arrangements are not leases continues to be appropriate.

LNG contracts

The Group is active in the liquified natural gas (LNG) market, both procuring long-term LNG supply arrangements and transacting in shorter-term LNG cargoes. As part of its operations in the market, the Group optimises its contractual positions in order to meet customer demand for physical commodity. In response to the continuing development of the global LNG market which, consistent with prior years, is not considered to be active, the Group has reviewed its portfolio of LNG transactions and contracts. It has judged that its activities are carried out for the purpose of receipt or delivery of physical commodity in accordance with its expected purchase and sale requirements. As a result, the Group's contracts to buy and sell LNG are outside the scope of IFRS 9, and are accounted for on an accruals basis.

Assets held for sale and discontinued operations

On 24 July 2020, the Group announced that it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of $3.6 billion (£2.7 billion) on a debt free, cash free basis. At the time of the announcement, the disposal was subject to shareholder and regulatory approvals, all of which were obtained before 31 December 2020.

In applying IFRS 5: 'Non-current assets held for sale and discontinued operations', the Group has judged that the assets and liabilities comprising the disposal group should be classified as held for sale as at 24 July 2020. This is on the basis that at that point, the disposal group was available for immediate sale, subject only to terms that are customary for sales of such assets, and the sale was highly probable.

Additionally, because the disposal group represents a separate major line of business and geographical operations, its results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Income and Group Cash Flow Statement. The transaction completed on 5 January 2021.

The Group's investments in Spirit Energy and Nuclear were not judged to be assets held for sale at 31 December 2020 because, at that date, their disposal was not considered highly probable within the next year.

(b) Key sources of estimation uncertainty

The sections below detail the assumptions the Group makes about the future and other major sources of estimation uncertainty when measuring its assets and liabilities at the reporting date. The information given relates to the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to those assets and liabilities in the next financial year.

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

Impairment of long-lived assets

The Group makes judgements in considering whether the carrying amounts of its long-lived assets (principally Upstream gas and oil assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill) or cash generating units (CGUs) are recoverable and estimates their recoverable amounts.

Upstream gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would consider when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on the median price of a collection of third-party comparator curves.

2020 has seen significant reductions in forward commodity prices, both in terms of observable market prices and forecast forward prices. This price suppression has been exacerbated by the reduction in demand for commodities experienced as a result of the COVID-19 pandemic. This has increased the level of estimation uncertainty in determining the value of gas and oil assets. Similarly, there is significant uncertainty around future investment by the Group in the Greater Warwick Area exploration and evaluation asset. As a result impairment charges have been booked.

Further details of the assumptions used in determining the recoverable amounts, the impairments booked during the year and sensitivity to the assumptions are provided in note 7.

3. Critical accounting judgements and key sources of estimation uncertainty

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting pre-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of outages and the likely operational lives of the stations. Suppression of power prices as a result of the COVID-19 pandemic has increased the level of uncertainty in determining the value of the Group's investment in Nuclear.

Further details of the methodology, assumptions, impairment booked during the year and related sensitivities are provided in note 7.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

The impact of the COVID-19 pandemic on commodity prices has increased the level of estimation uncertainty surrounding the valuation of goodwill in the Upstream segment in particular. As described above, there is estimation uncertainty in determining the value of gas and oil assets, leading to a write off in Upstream goodwill. Additionally, the disposal of the Group's Direct Energy business, along with the restructuring of the Group's operations and reduced earnings expectations as a result of COVID-19 has impacted the carrying value of goodwill associated with the Centrica Business Solutions business, subjecting the measurement of the asset to increased estimation uncertainty.

Further details on the goodwill balances, assumptions used in determining the recoverable amounts and impairment booked during the year are provided in notes 7, 15(b) and S2. Sensitivity to the assumptions is also found in note 7 for goodwill allocated to impaired CGUs in the year.

Centrica Home Solutions intangible assets

As a result of the restructuring of the Group's operations, management have reassessed the strategic interaction between the Centrica Home Solutions and British Gas supply and services businesses and as a result have reduced forecast cash flow for the Centrica Home Solutions operations that are now part of the British Gas operating segment. This has given rise to an impairment of certain software assets.

Further details of the methodology, assumptions, impairment booked during the year and related sensitivities are provided in note 7.

Credit provisions for trade and other receivables

The economic effects of the COVID-19 pandemic have impacted the ability of the Group's customers to pay amounts due. While the effect on customers has been mitigated by a number of government support and stimulus schemes, the level of estimation uncertainty in determining the credit provisions required for customers in different sectors and geographies has increased.

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provision, along with associated sensitivities, are set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit pension schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. The Group is permitted to recognise a pension scheme asset because it has an unconditional right to a refund on any winding up of the schemes or if gradual settlement of liabilities over time is assumed.

The Group's defined benefit schemes hold part of their plan asset portfolio as unquoted assets. These include private equity and property interests that are typically subject to valuation uncertainty. The economic uncertainty arising as a result of the COVID-19 pandemic has increased this level of uncertainty. The valuation of these assets is based on the latest asset manager views and other relevant benchmarks.

Further details, including sensitivities to these assumptions, are provided in note 22.

Cheniere LNG contract valuation

The Group's 20-year agreement with Cheniere, under which LNG is purchased from the Sabine Pass liquefaction plant in the US, has been assessed to determine if the contract should be considered onerous. As at 31 December 2020, the Group is committed to make minimum payments of $5.1 billion (£3.7 billion) over the remaining life of the arrangement. Further details of the Cheniere contract are provided in note 23. The combined intrinsic and extrinsic value of the arrangement is estimated to be positive and therefore no onerous contract provision has been recognised.

The intrinsic value is based on forecast future cash flows from the current optimal dispatch profile and based on the current forecast of gas price spreads between Henry Hub and NBP, and Henry Hub and the Asian LNG markets. The extrinsic value is based on the expected future cash flows from having contractual flexibility to deliver to alternate locations as demand changes, and from the potential that future gas price spreads could be higher than currently forecast due to volatility in market prices.

During the year, gas spreads have narrowed considerably, meaning that the estimated intrinsic value of the contract is negative based on forecast spreads as at 31 December 2020. The value of the contract is therefore reliant on the anticipated extrinsic value calculated using a complex model with set parameters, which increases the level of estimation uncertainty. The key parameters in the model include price volatilities and the bounded range of future gas spreads which are both set using historical price data. The valuation is sensitive to these assumptions, and the relationship between a change in the range of gas spreads and the potential change in value is not linear, and there is a risk of a material onerous contact provision. However, based on forecasts as at the reporting date, a reasonably possible change of 50 cents in the bounded range of future gas spreads coupled with a 10% change in future price volatility would impact the overall contract value by +/- c.$90 million (c.£66 million), and this level of reduction in these parameters would not give rise to a material charge to the Group Income Statement.

3. Critical accounting judgements and key sources of estimation uncertainty

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits that will flow to the Group, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Group expects to be entitled to in exchange for energy supplied. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. The primary source of estimation uncertainty relating to unread revenue arises in the respect of gas and electricity sales to UK downstream customers in British Gas and Centrica Business Solutions. At 31 December 2020 unread revenue arising from these customers amounted to £1,544 million (2019: £1,348 million). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. Based on prior experience of eventual outcomes, a change in assumptions made in reaching this estimate could impact the amount of unread revenue recognised by approximately £30 million.

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance that will be achieved either through subsequent customer billing or through developing industry settlement procedures. The adjustments for imbalance at 31 December 2020 are not significant. Changes resulting from these management estimates can be material with adjustments of up to £30 million having been made in the last few years, although it could possibly be higher than these amounts in the future.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of gas and oil fields is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until the 2040s.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2020 is 0% (2019: 1.2%). This change was made in response to the continued suppression of market risk-free rates and increased the provision by approximately £220 million. A 1% change in this discount rate would change the decommissioning liability by approximately £180 million.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids property, plant and equipment (PP&E) as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 205.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value. A change in reserves estimates could also change the timing of decommissioning activity, which could change the carrying value of the Group's provisions. The complex interaction of field-specific factors means that it is not possible to give a meaningful sensitivity of the Group's financial position or performance to gas and liquids reserves estimates. Details of the Group's 2P reserves are given on page 205. Details of impairments of exploration and production fields and goodwill, along with associated sensitivities, are given in note 7.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6 and on the sensitivities to these assumptions in note S3.

4. Segmental analysis

The Group's reporting segments are those used internally by management to run the business and make decisions. The Group's segments are based on products and services as well as the major factors that influence the performance of these products and services across the geographical locations in which the Group operates.

(a) Segmental structure

During the year the Group's reportable operating segments have been amended due to a change in the way management review and make decisions about the business.

The types of products and services from which each reportable segment derived its income during the year are detailed below. Income sources are reflected in Group revenue unless otherwise stated:

Segment	Description
British Gas	(i) The supply of gas and electricity to residential customers in the UK; (ii) the installation, repair and maintenance of domestic central heating and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK; and (iii) the supply of new technologies and energy efficiency solutions in the UK.
Bord Gáis Energy	(i) The supply of gas and electricity to residential and commercial and industrial customers in the Republic of Ireland; (ii) the installation, repair and maintenance of domestic central heating and related appliances in the Republic of Ireland; and (iii) power generation in the Republic of Ireland [i]
Energy Marketing & Trading	(i) The procurement, trading and optimisation of energy in the UK and Europe [i]; (ii) the global procurement and sale of LNG; and (iii) the generation of power from the Spalding combined cycle gas turbine tolling contract.
Centrica Business Solutions	(i) The supply of gas and electricity and provision of energy-related services to business customers in the UK [i]; and (ii) the supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Upstream	(i) The production and processing of gas and oil and the development of new fields, principally within Spirit Energy, to maintain reserves in the UK and Europe [i]; and (ii) the sale of power generated from nuclear assets in the UK.
Direct Energy (Discontinued operation)	(i) The supply of gas and electricity, and provision of energy-related services to residential and business customers in North America; (ii) the installation, repair and maintenance of domestic central heating and cooling systems and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America; and (iii) the procurement, trading and optimisation of energy in North America [i].

(i) Where income is generated from contracts in the scope of IFRS 9, this is included in re-measurement and settlement of energy contracts.

Financial Statements

4. Segmental analysis

(b) Revenue

Gross segment revenue includes revenue generated from the sale of products and services to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.

	2020			2019 (restated) (i)		
Year ended 31 December	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Continuing operations						
British Gas	7,887	(2)	7,885	8,327	(1)	8,326
Bord Gáis Energy	820	–	820	897	–	897
Energy Marketing & Trading	2,917	(175)	2,742	3,357	(271)	3,086
Centrica Business Solutions	2,131	(8)	2,123	2,331	(9)	2,322
Upstream	1,918	(539)	1,379	2,290	(963)	1,327
Group revenue included in business performance	15,673	(724)	14,949	17,202	(1,244)	15,958
Discontinued operations						
Direct Energy	9,483	–	9,483	10,867	–	10,867
Business performance revenue arising from continuing and discontinued operations	25,156	(724)	24,432	28,069	(1,244)	26,825
Less: revenue arising on contracts in scope of IFRS 9 included in business performance			(2,700)			(2,964)
Less: Discontinued operations			(9,483)			(10,867)
Group Revenue			12,249			12,994

(i) Segmental revenues have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3). As a result of the change in segments, gross segment revenue has been restated to reflect the updated inter-segment trading.

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards. The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. The analysis of IFRS 15 revenue below reflects these factors.

	2020				
Year ended 31 December	Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
Continuing operations					
Energy supply – UK	6,386				
Energy services	545				
British Gas	6,931	954	7,885	–	7,885
Energy supply – Republic of Ireland	725				
Bord Gáis Energy	725	–	725	95	820
Energy sales to trading and energy procurement counterparties	1,317				
Energy Marketing & Trading	1,317	–	1,317	1,425	2,742
Energy supply – UK	1,380				
Energy services and solutions	262				
Centrica Business Solutions	1,642	8	1,650	473	2,123
Gas and oil production	672				
Upstream	672	–	672	707	1,379
	11,287	962	12,249	2,700	14,949

4. Segmental analysis

Year ended 31 December	Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
	2019 (restated) (i)				
Continuing operations					
Energy supply – UK	6,629				
Energy services	699				
British Gas	7,328	998	8,326	–	8,326
Energy supply – Republic of Ireland	779				
Bord Gáis Energy	779	–	779	118	897
Energy sales to trading and energy procurement counterparties	1,256				
Energy Marketing & Trading	1,256	–	1,256	1,830	3,086
Energy supply – UK	1,574				
Energy services and solutions	269				
Centrica Business Solutions	1,843	11	1,854	468	2,322
Gas and oil production	779				
Upstream	779	–	779	548	1,327
	11,985	1,009	12,994	2,964	15,958

(i) Segmental revenues have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).

Geographical analysis of revenue and non-current assets

The Group monitors and manages performance by reference to its operating segments and not solely on a geographical basis. However, provided below is an analysis of revenue and certain non-current assets by geography.

Year ended 31 December	Group revenue (based on location of customer) (restated) (i)		Non-current assets (based on location of assets) (ii)	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Continuing operations				
UK	**9,787**	10,437	**3,691**	4,653
Republic of Ireland	**725**	777	**114**	135
Norway	**265**	322	**1,149**	1,474
North America	**266**	205	**34**	1,903
Rest of the world	**1,206**	1,253	**552**	421
	12,249	12,994	**5,540**	8,586

(i) Group revenues have been restated to treat Direct Energy as a discontinued operation (see note 3).
(ii) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial assets within trade and other receivables, and contract-related assets. In 2020, assets of disposal groups held for sale are not included, and 2019 has been re-presented.

4. Segmental analysis

(c) Adjusted gross margin and adjusted operating profit

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes business performance results of equity-accounted interests.

This note also details adjusted gross margin. Both measures are reconciled to their statutory equivalents.

	Adjusted gross margin		Adjusted operating profit	
Year ended 31 December	**2020 £m**	2019 (restated) (i) £m	**2020 £m**	2019 (restated) (i) £m
Continuing operations				
British Gas	**1,473**	1,591	**281**	304
Bord Gáis Energy	**154**	149	**42**	50
Energy Marketing & Trading	**281**	305	**174**	138
Centrica Business Solutions	**181**	282	**(140)**	(20)
Upstream	**244**	507	**90**	178
Adjusted gross margin/adjusted operating profit	**2,333**	2,834	**447**	650
Discontinued operations				
Direct Energy	**862**	1,018	**252**	251
Total Group adjusted gross margin/adjusted operating profit	**3,195**	3,852	**699**	901
Less Discontinued operations	**(862)**	(1,018)	**(252)**	(251)
Business performance gross margin/operating profit from continuing operations	**2,333**	2,834	**447**	650
Certain re-measurements (continuing operations)	**786**	(309)	**786**	(309)
Share of re-measurement of certain associates' energy contracts (net of taxation)	**–**	–	**(2)**	(1)
Gross profit	**3,119**	2,525		
Exceptional items in operating profit (continuing operations)			**(1,593)**	(1,123)
Operating loss after exceptional items and certain re-measurements			**(362)**	(783)

(i) Segmental results have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).

4. Segmental analysis

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including a summary of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

	Depreciation and impairments of PP&E		Amortisation, write-downs and impairments of intangibles	
Year ended 31 December	**2020 £m**	2019 (restated) (i) £m	**2020 £m**	2019 (restated) (i) £m
Continuing operations				
British Gas	**(49)**	(55)	**(122)**	(113)
Bord Gáis Energy	**(5)**	(7)	**(12)**	(10)
Energy Marketing & Trading	**(30)**	(47)	**(12)**	(11)
Centrica Business Solutions	**(16)**	(13)	**(37)**	(30)
Upstream	**(519)**	(690)	**(26)**	(63)
Other (ii)	**(40)**	(39)	**(44)**	(38)
	(659)	(851)	**(253)**	(265)
Discontinued operations				
Direct Energy	**(15)**	(29)	**(32)**	(61)

(i) Segmental results have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairments of PP&E
During 2020, £2 million of impairments of PP&E were recognised within business performance in British Gas and Upstream. During 2019, a £73 million impairment charge was recognised within business performance (£39 million within Upstream and £34 million within Energy Marketing & Trading).

Write-downs and impairments of intangible assets
During 2020, £24 million of write-downs (2019: £60 million) relating to exploration and evaluation assets were recognised in the Upstream segment. All such current and prior year write-downs were recognised within business performance as they were not deemed exceptional in nature. During 2020, £3 million of other intangible assets were impaired within business performance in British Gas and Other (2019: £nil).

The recoverable amount of these assets was £nil.

4. Segmental analysis

(e) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
Year ended 31 December	**2020 £m**	2019 (restated) (i) £m	**2020 £m**	2019 (restated) (i) £m
Continuing operations				
British Gas	**19**	26	**546**	493
Bord Gáis Energy	**4**	2	**7**	12
Energy Marketing & Trading (ii)	**206**	4	**61**	59
Centrica Business Solutions	**17**	46	**354**	249
Upstream	**275**	328	**62**	218
Other	**8**	17	**5**	23
	529	423	**1,035**	1,054
Discontinued operations				
Direct Energy (iii)	**13**	16	**303**	295
Group total capital expenditure	**542**	439	**1,338**	1,349
Less Discontinued operations	**(13)**	(16)	**(303)**	(295)
Related to continuing operations:				
Capitalised borrowing costs (note 8)	**(7)**	(11)	**(6)**	(2)
Inception of new leases and movements in payables and prepayments related to capital expenditure	**(230)**	(35)	**43**	(20)
Purchases of emissions allowances and renewable obligation certificates (iv)	**–**	–	**(875)**	(652)
Net cash outflow (continuing operations)	**292**	377	**197**	380

(i) Segmental results have been restated to reflect the new operating structure of the Group, and to treat Direct Energy as a discontinued operation (see note 3).
(ii) During the year the Group commenced the lease of two new LNG vessels. See note 23 for further details.
(iii) A portion of Direct Energy capital expenditure occurred after it was classified as a disposal group held for sale. This amounted to £6 million of property, plant and equipment and £122 million of intangible assets.
(iv) Purchases of emissions allowances and renewable obligation certificates of £482 million (2019: £384 million) in British Gas, £55 million (2019: £45 million) in Energy Marketing & Trading, and £338 million (2019: £223 million) in Centrica Business Solutions.

4. Segmental analysis

(f) Free cash flow

Free cash flow is used by management to assess the cash generating performance of each segment, after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in collateral and margin cash, which are predominantly triggered by wider market factors, and in the case of collateral and margin movements, represent timing movements, free cash flow gives a measure of the underlying cash generation of the business. Free cash flow excludes investing cash flows that are related to net debt. This measure is reconciled to the net cash flow from operating and investing activities.

Year ended 31 December	2020 £m	2019 £m
Continuing operations		
British Gas	**271**	177
Bord Gáis Energy	**35**	60
Energy Marketing & Trading	**241**	41
Centrica Business Solutions	**(90)**	(74)
Upstream	**193**	329
Other (i)	**37**	19
Segmental free cash flow excluding tax	**687**	552
Discontinued operations		
Direct Energy	**401**	506
Group total segmental free cash flow excluding tax	**1,088**	1,058
Taxes paid from continuing operations	**(2)**	(80)
Taxes paid from discontinued operations	**(25)**	(12)
Group total free cash flow	**1,061**	966
Less Discontinued operations free cash flow (including tax)	**(376)**	(494)
Free cash flow from continuing operations	**685**	472
UK Pension deficit payments (note 22)	**(175)**	(235)
Movements in variation margin and collateral included in net debt (ii)	**56**	21
Interest received	**7**	11
Sale and settlement of securities	**121**	50
	694	319
Net cash flow from continuing operating activities	**957**	970
Net cash flow used in continuing investing activities	**(263)**	(651)
Total cash flow from continuing operating and investing activities	**694**	319

(i) The Other segment includes corporate functions.
(ii) Excludes movement in variation margin and collateral from discontinued operations of £45 million (2019: £(66) million).

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5. Costs

This section details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	2020 Cost of sales and settlement of certain energy contracts £m	2020 Operating costs £m	2020 Total costs £m	2019 (restated) (i) Cost of sales and settlement of certain energy contracts £m	2019 (restated) (i) Operating costs £m	2019 (restated) (i) Total costs £m
Transportation, distribution, capacity market and metering costs	**(3,572)**	**–**	**(3,572)**	(3,452)	–	(3,452)
Commodity costs	**(6,442)**	**–**	**(6,442)**	(6,990)	–	(6,990)
Depreciation, amortisation, impairments and write-downs	**(554)**	**(358)**	**(912)**	(671)	(445)	(1,116)
Employee costs	**(515)**	**(685)**	**(1,200)**	(548)	(954)	(1,502)
Other direct costs	**(1,533)**	**(671)**	**(2,204)**	(1,463)	(661)	(2,124)
Costs included within business performance before credit losses on financial assets	**(12,616)**	**(1,714)**	**(14,330)**	(13,124)	(2,060)	(15,184)
Credit losses on financial assets (net of recovered amounts) (note 17)	**–**	**(195)**	**(195)**	–	(112)	(112)
Total costs included within business performance	**(12,616)**	**(1,909)**	**(14,525)**	(13,124)	(2,172)	(15,296)
Adjustment for gross cost of settled energy contracts in the scope of IFRS 9	**4,118**	**–**	**4,118**	4,766	–	4,766
Exceptional items and re-measurement and settlement of energy contracts (note 7)	**(632)**	**(1,593)**	**(2,225)**	(2,111)	(1,123)	(3,234)
Total costs within Group operating profit	**(9,130)**	**(3,502)**	**(12,632)**	(10,469)	(3,295)	(13,764)

(i) Comparatives have been restated to treat Direct Energy as a discontinued operation (see note 3).

COVID-19 Support Schemes

During 2020, the Group recognised an amount totalling £27 million receivable under the UK Government's Coronavirus Job Retention Scheme. This has been presented net in Cost of sales and Operating costs before exceptional items and credit losses on financial assets in the Group Income Statement. Additionally, under a customer support programme introduced by the Government of Alberta in Canada, the Group recognised a reduction in credit losses for receivables amounting to £4 million. A further £1 million was received under a Texas customer support programme. The amounts relating to North America have been presented net in discontinued operations costs.

(b) Employee costs

The below employee costs exclude the costs of redundancy and similar termination benefits.

Year ended 31 December	2020 Continuing operations £m	2020 Discontinued operations £m	2020 Total £m	2019 (restated) (i) Continuing operations £m	2019 (restated) (i) Discontinued operations £m	2019 (restated) (i) Total £m
Wages and salaries	**(979)**	**(246)**	**(1,225)**	(1,275)	(355)	(1,630)
Social security costs	**(108)**	**(21)**	**(129)**	(140)	(25)	(165)
Pension and other post-employment benefits costs	**(171)**	**–**	**(171)**	(191)	–	(191)
Share scheme costs (note S4)	**(34)**	**(18)**	**(52)**	(30)	(11)	(41)
	(1,292)	**(285)**	**(1,577)**	(1,636)	(391)	(2,027)
Capitalised employee costs	**32**	**3**	**35**	35	5	40
Employee costs included in exceptional items	**33**	**–**	**33**	99	–	99
Cost recovery via Coronavirus government support programmes (ii)	**27**	**–**	**27**	–	–	–
Employee costs recognised in business performance in the Group Income Statement	**(1,200)**	**(282)**	**(1,482)**	(1,502)	(386)	(1,888)

(i) Comparatives have been restated to treat Direct Energy as a discontinued operation (see note 3).
(ii) See above and note 1 for details of support received by the Group under Coronavirus support programmes.

5. Costs

(c) Average number of employees during the year

Year ended 31 December	2020 Number	2019 Number
British Gas	**17,088**	19,509
Bord Gáis Energy	**281**	244
Energy Marketing & Trading	**361**	309
Centrica Business Solutions	**2,295**	2,041
Upstream	**912**	941
Group Functions	**2,183**	2,995
Direct Energy	**2,633**	3,108
	25,753	29,147

During 2020, the Group restructure saw both a reduction in number of roles and a general re-allocation towards the customer-facing businesses, alongside other business moves.

6. Share of results of joint ventures and associates

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2020 principally arises from its interest in Nuclear – Lake Acquisitions Limited, an associate, reported in the Upstream segment.

	2020			2019		
Year ended 31 December	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the year £m	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the year £m
Income	**557**	**–**	**557**	505	–	505
Expenses before exceptional items and re-measurement of certain contracts	**(501)**	**–**	**(501)**	(508)	–	(508)
Exceptional items and re-measurement of certain contracts	**–**	**(2)**	**(2)**	–	(1)	(1)
Operating profit/(loss)	**56**	**(2)**	**54**	(3)	(1)	(4)
Financing costs	**(8)**	**–**	**(8)**	(10)	–	(10)
Taxation on profit/(loss)	**(25)**	**–**	**(25)**	1	–	1
Share of post-taxation results of joint ventures and associates	**23**	**(2)**	**21**	(12)	(1)	(13)

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

7. Exceptional items and certain re-measurements

(a) Certain re-measurements

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

Year ended 31 December	2020 £m	2019 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	520	143
Net gains/(losses) arising on market price movements and new contracts	266	(452)
Net re-measurements included within gross profit	786	(309)
Net losses arising on re-measurement of certain associates' contracts (net of taxation)	(2)	(1)
Net re-measurements included within Group operating profit	784	(310)
Taxation on certain re-measurements (note 9)	(86)	2
Net re-measurements after taxation for continuing operations	698	(308)
Discontinued operations		
Net re-measurements from discontinued operations before taxation	184	(337)
Taxation on certain re-measurements in discontinued operations	(46)	101
Net re-measurements after taxation from discontinued operations	138	(236)
Total certain re-measurements	836	(544)

Year ended 31 December	2020 £m	2019 £m
Total re-measurement and settlement of derivative energy contracts	(632)	(2,111)
Less: IFRS 9 business performance revenue	(2,700)	(2,964)
Less: IFRS 9 business performance cost of sales	4,118	4,766
Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit	786	(309)

7. Exceptional items and certain re-measurements

(b) 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. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and releases, pension change costs or credits, significant debt repurchase costs and asset write-downs/impairments and write-backs.

Year ended 31 December	2020 £m	2019 £m
Exceptional items recognised in continuing operations		
Impairment of exploration and production assets (including the disposal of Danish fields) (i)	**(644)**	(476)
Impairment and derecognition of power assets (ii)	**(525)**	(381)
Impairment of Centrica Home Solutions (iii)	**(72)**	(62)
Impairment of Centrica Business Solutions goodwill (iv)	**(78)**	–
Restructuring costs (v)	**(154)**	(323)
Net pension change (charge)/credit (vi)	**(120)**	152
Net loss on significant disposals (including impairment of assets sold or held for sale)	**–**	(33)
Exceptional items included within Group operating profit	**(1,593)**	(1,123)
Net taxation on exceptional items (note 9)	**273**	130
Net exceptional items recognised in continuing operations after taxation	**(1,320)**	(993)
Net exceptional items recognised in discontinued operations after taxation	**(36)**	6
Total exceptional items recognised after taxation	**(1,356)**	(987)

Exceptional items recognised in discontinued operations		
Direct Energy disposal related costs (vii)	**(29)**	–
Impairment of Centrica Home Solutions	**–**	(15)
Restructuring costs (v)	**7**	(33)
Net gain on significant disposals (including impairment of assets sold or held for sale)	**–**	68
Exceptional items before taxation	**(22)**	20
Net taxation on exceptional items (vii)	**(14)**	(14)
Net exceptional items recognised in discontinued operations after taxation	**(36)**	6

(i) In the Upstream segment, impairments of exploration and production assets have been booked relating to the value of certain UK and Norwegian gas and oil fields and to Goodwill. This amounted to £580 million (post-tax £313 million) of field assets and £62 million (post-tax £62 million) of Goodwill and was predominantly due to the impact of a reduction in both near-term liquid prices and long-term price forecasts. Also included is the net reduction of decommissioning provisions (pre-tax £2 million, post-tax £nil) related to assets previously impaired through exceptional items. Separately, in the taxation line, a net write-off of £63 million of deferred tax positions associated with exploration and production tax losses, decommissioning carry-back and PRT has also been recorded related to the reduction in forecast prices. The disposal of the Danish gas and oil assets gave rise to an initial £8 million impairment write-back (post-tax £8 million) immediately prior to the transfer to Assets Held for Sale and then an actual loss on disposal of £12 million (post-tax £12 million) predominantly from the recycling of the foreign currency translation reserve (see note 12).

(ii) In the Upstream segment, an impairment of the nuclear investment has been booked as a result of a reduction in price forecasts, and lower output following generation issues at Hunterston, Hinkley and Dungeness. The pre and post-tax impact was £481 million. Similarly, in the Centrica Business Solutions segment, an impairment of gas-fired and battery power assets has also been recorded as a result of forecast price reductions. This gave rise to a charge of £23 million (post-tax £19 million). In the Bord Gáis Energy segment, an outage at the Whitegate power station led to the derecognition of £21 million (post-tax £18 million) of component parts.

(iii) The Centrica Home Solutions business impaired intangible software assets by £72 million (post-tax £59 million). This was as a result of the decision to merge the business into the British Gas segment's services and solutions arm and to reduce the scale and breadth of technology products offered in the portfolio.

(iv) The Centrica Business Solutions customer cash generating unit impaired its Goodwill by £78 million (post-tax £78 million), as a result of reduced growth prospects, particularly in North America following the disposal of Direct Energy in January 2021.

(v) The Group's strategic restructure and headcount reduction has led to redundancy costs being recognised in relation to both incurred and expected future severance costs (excluding pension strains) of £94 million (post-tax £76 million). In addition, costs associated with projects in the Group's cost efficiency programme principally related to property rationalisation costs and other transformational activity have also been incurred amounting to £42 million (post-tax £35 million). The project to modernise employee terms and conditions across the business saw one-off transition payments of £18 million (post-tax £15 million) also recognised. In discontinued operations, a reversal of previously booked redundancy provisions and property impairments of £7 million (post-tax £6 million) was recorded due to the change in circumstances with the Direct Energy business now being disposed in January 2021.

(vi) A pension strain charge has been reflected in relation to redundancies arising as a result of Group's restructuring programme (post-tax £97 million).

(vii) In connection with the disposal of Direct Energy, which completed on 5 January 2021, £17 million (post-tax £13 million) of costs were incurred during the year related to professional assistance and assurance activities. At the same time, £12 million (post-tax £9 million) of other costs were incurred, predominantly related to Group intangible IT software assets write offs that were considered obsolete as a result of the imminent change in the wider business make-up. Separately, a historic Canadian exploration and production deferred tax asset of £20 million was also written-off as it would no longer be recoverable in the absence of a profitable Canadian business.

7. Exceptional items and certain re-measurements

(c) Impairment accounting policy, process and sensitivities

The information provided below relates to the assets and CGUs (or groups of CGUs) that have been subject to impairment during the year. Details of the Group's wider impairment assessment and measurement policy are provided in note S2.

Exceptional impairments of assets measured on a FVLCD basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment	Recoverable amount (i) £m	FV hierarchy	Impairment £m
Upstream	Goodwill (ii)	Significant deterioration in forecast commodity prices, and reduced forecast value on exploration and evaluation prospects	585	L3	62
	Greater Warwick Area exploration and evaluation asset	Significant uncertainty over the field development	–	L3	135
	UK and Norwegian fields (iii)	Significant deterioration in forecast commodity prices	135	L3	445
	Danish fields (disposal)	Re-measurement prior to reclassification to disposal group held for sale	N/A	L3	(8)
Centrica Business Solutions	Customer CGU goodwill	Reduced growth prospects, particularly in North America	220	L3	78
Other	Property	Change in usage of assets (including right-of-use assets)	45	L3	15

(i) The recoverable amounts are for the specific assets impaired, or in the case of goodwill to the wider CGU to which it relates.
(ii) The recoverable amount stated for Upstream goodwill relates to the CGU associated with gas and oil fields and exploration and evaluation assets. This amount excludes working capital and non field-specific deferred tax assets.
(iii) Relates to 6 individual fields that were impaired. Recoverable amount disclosed relates to those 6 fields.

Fair value less costs of disposal (FVLCD) is determined by discounting the post-tax cash flows expected to be generated by the assets or CGU, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows used in the FVLCD calculation are based on the Group's Board-approved business plans and strategic shape assumptions, together with, where relevant, long-term production and cash flow forecasts.

Upstream gas and oil assets (including goodwill)

For Upstream gas and oil assets post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (i.e. outside the active period for each commodity), prices are determined based on the median of third-party market comparator curves. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Price assumptions are critical and use liquid market prices for 2021 to 2024, blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10.0% (2019: 9.0%).

The recoverable amount for Goodwill is then assessed by taking the headroom on the individual field assessments (including exploration and evaluation prospects), calculated as described above and deducting the forecast general administration and corporate running costs of the business over the life of the fields.

As forward commodity prices are a key assumption in these valuations, average prices and associated impairment sensitivities for the Group's upstream gas and oil assets (including Goodwill) for the relevant periods are shown below.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in post-tax headroom/(impairment) (ii)			
					+10%		-10%	
	2021-2025	2020-2024	2026-2035	2025-2034				
	2020	2019	**2020**	2019	**2020 £m**	2019 £m	**2020 £m**	2019 £m
NBP (p/th)	**40**	43	**46**	58	**289**	180	**(266)**	(197)
Brent ($/bbl)	**47**	62	**65**	81				

(i) Prices are shown in 2019 real terms.
(ii) Sensitivity relates to Upstream exploration and production assets and CGUs. A 10% change is deemed to represent a reasonably possible variation across the entire period covered by the liquid market and comparator curves used in upstream gas and oil impairment tests. In the -10% scenario an impairment of £199 million of goodwill would arise. This is included in the sensitivity given above.

7. Exceptional items and certain re-measurements

Furthermore, there is also uncertainty due to climate change and international governmental intervention to reduce CO_2 emissions and the likely impact this will have on both gas and oil demand and forecast prices. As a result, a further sensitivity is disclosed below based on forecast prices aligned to the International Energy Agency's ('IEA') Sustainable Development Scenarios, which assumes governmental policies are put in place to achieve the temperature goals under the Paris Agreement. This sensitivity retains the prices for the liquid period (4 years) but replaces the longer term thereafter with the IEA's forecast prices for Sustainable Development.

	Ten-year long-term average price (i)	Change in post -tax headroom/ (impairment) (ii)
	2026-2035	
	2020	£m
NBP (p/th)	33	(132)
Brent ($/bbl)	55	

(i) Prices shown in 2019 real terms
(ii) Change in impairment would all relate to Goodwill.

Centrica Business Solutions customer CGU

A FVLCD calculation has been used to assess the recoverable amount of Centrica Business Solutions customer CGU, with the disposal of Direct Energy in early 2021 reducing growth prospects in North America. Cashflows have been projected over a 5-year period for each region and a terminal value has been applied to the 2025 cashflows using a growth rate in the range 1.7-2.2% which is jurisdictional and product specific. The future post-tax cashflows are predominantly discounted using a post-tax nominal discount rate of 7.5% (2019: 7.5%). The forecast assumes that the customer CGU achieves positive cash inflows by 2025. Were the cashflows used in the terminal value calculation reduced by 10%, a further impairment of Goodwill of £36 million would be required. Were the discount rate to be increased by 1% a further impairment of Goodwill of £66 million would be required.

Exceptional impairments of assets measured on a VIU basis

Segment	Asset/CGU (or group of CGUs)	Basis for impairment	Recoverable amount £m	Impairment £m
Upstream	Nuclear	Reduction in baseload power prices and lower output assumptions following the generation issues at Dungeness, Hunterston and Hinkley.	830	481
Centrica Business Solutions	Gas-fired power and Battery storage assets	Decline in forecast prices	49	23
British Gas	Centrica Home Solutions intangible software assets	Reduction in scale and breadth of products and consequent reduction in forecast future profitability	2	72

Nuclear

A VIU calculation has been used to determine the recoverable amount of the Group's investment in Nuclear. The post-tax cash flows incorporated in the valuation are derived from board approved forecasts, based on the expected generation profile of the fleet for its remaining life. Assumptions include forward commodity prices, capacity rates, transportation and fuel costs and balancing system charges. Price assumptions are based on liquid market prices for 2021 to 2024 which are then blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are used due to alignment with pricing that a reasonable market participant would use, and the inclusion of certain data points (e.g. impact of climate change).

The VIU calculation assumes that the Sizewell plant operates until 2055, reflecting a 20-year extension beyond its original design life. In the absence of this extension, the Group's investment in Nuclear would be impaired by a further £233 million.

The VIU calculation is also sensitive to changes in outage assumptions. A 1% increase in the unplanned outages rate applied to volume across the nuclear fleet would increase impairment by £27 million.

The future pre-tax cash flows generated by the investment in the associate are discounted using a pre-tax nominal discount rate 8.0% (2019: 8.4%). This is equivalent to post-tax nominal rate 6.5% (2019: 6.5%). A 1% increase in the post-tax discount rate would increase impairment by £68 million. A 1% reduction in the post-tax discount rate would lead to impairment write-back of £82 million.

7. Exceptional items and certain re-measurements

The asset is particularly sensitive to changes in commodity price and the table below details average prices for the relevant periods and associated sensitivities.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in pre/post-tax headroom/(impairment) (ii)			
					+10%		-10%	
	2021-2025	2020-2024	2026-2035	2025-2034				
	2020 £/MWh	2019 £/MWh	**2020 £/MWh**	2019 £/MWh	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Baseload power	**48**	47	**52**	59	**295**	376	**(293)**	(376)

(i) Prices are shown in 2019 real terms.
(ii) A 10% change is deemed to represent a reasonably possible variation across the entire period covered by the liquid market and comparator curves used in the nuclear impairment test.

Whilst there is uncertainty in the future forecast commodity prices due to climate change and the impact international government intervention to reduce CO_2 emissions will have, there is no consensus on the likely effect on baseload power prices under sustainable development scenarios (Paris Agreement compliant). Nuclear is a carbon-free, firm power source and further sensitivities have not been provided to the base case and price sensitivities above as the Group does not currently believe that the prices obtained for such carbon-free output would be significantly reduced in a Paris-compliant scenario.

Centrica Home Solutions software intangibles

The VIU calculation for the Centrica Home Solutions CGU incorporates growth assumptions to generate positive cash inflows of £8 million in 2025, and includes a terminal value based on this final year. If the 2025 cash flow reduced by 10%, with a consequent fall in terminal value, a further impairment of the software intangibles of £2 million would be required.

The discount rate and inflation rate used in the above calculations are determined in the same manner as the rates used in the VIU calculations described in note S2.

Other impairments

Within discontinued operations £8 million (2019: £nil) of Group assets were impaired. A £2 million impairment was booked in relation to other joint ventures. The recoverable amounts of these assets have been calculated as £nil on the basis of VIU.

8. Net finance cost

Financing costs mainly comprise interest on bonds and bank debt, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions and pensions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits and government bonds.

Continuing operations

	2020			2019 (restated) (i)		
Year ended 31 December	**Financing costs £m**	**Investment income £m**	**Total £m**	Financing costs £m	Investment income £m	Total £m
Cost of servicing net debt:						
Interest income	**–**	**7**	**7**	–	13	13
Interest cost on bonds, bank loans and overdrafts	**(206)**	**–**	**(206)**	(232)	–	(232)
Interest cost on lease liabilities	**(10)**	**–**	**(10)**	(12)	–	(12)
	(216)	**7**	**(209)**	(244)	13	(231)
Net gains on revaluation	**–**	**4**	**4**	–	–	–
Notional interest arising from discounting	**(23)**	**–**	**(23)**	(33)	–	(33)
	(239)	**11**	**(228)**	(277)	13	(264)
Capitalised borrowing costs (ii)	**13**	**–**	**13**	13	–	13
Financing (cost)/income	**(226)**	**11**	**(215)**	(264)	13	(251)

(i) Comparatives have been restated to present the Direct Energy business as a discontinued operation. See note 3 for details.
(ii) Borrowing costs have been capitalised using an average rate of 4.47% (2019: 4.77%).

9. Taxation

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits together with amendments in respect of tax provisions made in earlier years. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

(a) Analysis of tax charge

	2020			2019 (restated) (i)		
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Continuing operations:						
Current tax						
UK corporation tax	(12)	7	(5)	(37)	37	–
UK petroleum revenue tax	71	–	71	17	–	17
Non-UK tax	47	(7)	40	(102)	1	(101)
Adjustments in respect of prior years – UK	42	8	50	16	(34)	(18)
Adjustments in respect of prior years – non-UK	7	–	7	4	–	4
Total current tax	155	8	163	(102)	4	(98)
Deferred tax						
Origination and reversal of temporary differences – UK	(38)	102	64	15	15	30
UK petroleum revenue tax	(22)	1	(21)	(5)	22	17
Origination and reversal of temporary differences – non-UK	(38)	77	39	(14)	57	43
Change in UK tax rate	(28)	8	(20)	–	–	–
Adjustments in respect of prior years – UK	(52)	(9)	(61)	(34)	34	–
Adjustments in respect of prior years – non-UK	(19)	–	(19)	(2)	–	(2)
Total deferred tax	(197)	179	(18)	(40)	128	88
Total taxation on profit/(loss) from continuing operations (ii)	(42)	187	145	(142)	132	(10)
Discontinued operations:						
Current tax – non-UK	(23)	6	(17)	(58)	(33)	(91)
Deferred tax – origination and reversal of temporary differences – non-UK	(10)	(66)	(76)	(18)	120	102
Total taxation on profit/(loss) from discontinued operations	(33)	(60)	(93)	(76)	87	11
Total taxation on profit/(loss) for the year	(75)	127	52	(218)	219	1

(i) Prior year results have been restated to remove the Direct Energy business from continuing operations, as the business has been classified as a discontinued operation. See note 3.
(ii) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

UK tax rates

Most activities in the UK are subject to the standard rate for UK corporation tax of 19% (2019: 19%). Upstream gas and oil production activities are taxed at a rate of 30% (2019: 30%) plus a supplementary charge of 10% (2019: 10%) to give an overall rate of 40% (2019: 40%). Certain upstream assets in the UK under the petroleum revenue tax (PRT) regime have a current rate of 0% (2019: 0%).

The UK corporation tax rate was scheduled to reduce to 17% from 1 April 2020 but the Government halted the reduction, to maintain the rate at 19%. During 2020, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were rebased to 19% accordingly.

Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 22% (2019: 22%) plus a special tax of 56% (2019: 56%) resulting in an aggregate tax rate of 78% (2019: 78%). Profits earned in the US are taxed at a Federal rate of 21% (2019: 21%) together with state taxes at various rates dependent on the state, and in Canada at a Federal rate of 15% (2019: 15%) with provincial taxes at rates dependent on the province. Taxation for other jurisdictions is calculated at the rate prevailing in those respective jurisdictions, with rates ranging from 12.5% in the Republic of Ireland to 50% in the Netherlands. The tax charges were not material in such jurisdictions.

Prior year adjustments reflect changes made to estimates or to judgements when further information becomes available.

Movements in deferred tax liabilities and assets are disclosed in note 16. Tax on items taken directly to equity is disclosed in note S4.

9. Taxation

(b) Factors affecting the tax charge

The Group is expected to continue carrying out most of its business activities in the UK and accordingly considers the standard UK rate to be the appropriate reference rate.

The differences between the total taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before taxation are as follows:

	2020			2019		
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit/(loss) before taxation from continuing operations	232	(809)	(577)	399	(1,433)	(1,034)
Add back/(deduct) share of losses/(profits) of joint ventures and associates, net of interest and taxation	(23)	2	(21)	12	1	13
	209	(807)	(598)	411	(1,432)	(1,021)
Tax on profit/(loss) at standard UK corporation tax rate of 19% (2019: 19%)	(40)	153	113	(78)	272	194
Effects of:						
Depreciation/impairment on non-qualifying assets	(20)	(100)	(120)	(31)	(229)	(260)
Higher rates applicable to upstream profits/losses	(28)	203	175	(107)	42	(65)
Non-UK tax rates	12	17	29	29	93	122
Upstream investment incentives	39	–	39	37	(32)	5
Movements in uncertain tax provisions	12	–	12	8	–	8
Changes in UK tax rate	(28)	8	(20)	–	–	–
Impairment of deferred tax assets relating to Upstream losses and decommissioning	(10)	(79)	(89)	(2)	–	(2)
Other	21	(15)	6	2	(14)	(12)
Taxation on profit/(loss) from continuing operations	(42)	187	145	(142)	132	(10)
Less: movement in deferred tax	197	(179)	18	40	(128)	(88)
Total current tax from continuing operations	155	8	163	(102)	4	(98)
Current tax from discontinued operations	(23)	6	(17)	(58)	(33)	(91)
Total current tax on profit/(loss) for the year	132	14	146	(160)	(29)	(189)

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved. Resolution of these differences typically takes many years. The uncertain tax provisions represent multiple layers of estimation for different time periods and different jurisdictions.

The Group has applied IFRIC 23: 'Uncertainty over income tax treatments'. The interpretation requires consideration of the likelihood that the relevant taxing authority will accept an uncertain tax treatment in order to determine the measurement basis. The value is calculated in accordance with the rules of the relevant tax authority when acceptance is deemed probable.

The principal element of the Group's uncertain tax position relates to transfer pricing challenges in jurisdictions outside the UK. While the Group applies the arm's length principle to all intra-group transactions, taking OECD guidance into account, taxing authorities may take different views. The outcome of resolving any disputes is not predictable and therefore in order to reflect the effect of uncertainties, the provisions represent management's assessment of the most likely outcome of each issue. The assessment is reviewed and updated on a regular basis. At 31 December 2020, the Group held uncertain tax provisions of £180 million (2019: £197 million).

9. Taxation

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes. Losses arising in one territory cannot be offset against profits in another.

Profits from gas and oil production in the UK continue to be taxed at rates above the UK statutory rate (40% versus 19%). PRT is now set at 0% but may still give rise to historic refunds from the carry-back of excess reliefs (for example, from decommissioning).

Income earned in territories outside the UK, particularly in Norway, is generally subject to higher effective rates of tax than the current UK statutory rate.

The Group's US profits are subject to a Federal rate of 21% plus applicable state taxes, and Canadian profits a Federal rate of 15% plus applicable provincial taxes. North American business will decrease substantially following the disposal of Direct Energy (see note 12).

Globally, tax reform has significant potential to change tax charges, particularly in relation to the OECD's Base Erosion and Profit Shifting (BEPS) project, which has widespread support. The Group does not expect its tax position to be impacted materially. Local tax laws and rates are subject to change, which may have a significant impact on the Group's future tax charges.

In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate, reflecting higher rates applicable to profits earned outside the UK and in Upstream. The mix of upstream/downstream activities across regimes continues to be influential on the effective tax rate.

(d) Relationship between current tax charge and taxes paid

	2020			2019		
Year ended 31 December	UK £m	Non-UK £m	**Total £m**	UK £m	Non-UK £m	Total £m
Current tax (credit)/charge:						
Corporation tax	(45)	(30)	**(75)**	18	188	206
Petroleum revenue tax	(71)	–	**(71)**	(17)	–	(17)
	(116)	**(30)**	**(146)**	1	188	189
Taxes (refunded)/paid:						
Corporation tax	1	62	**63**	(43)	239	196
Petroleum revenue tax	(36)	–	**(36)**	(68)	–	(68)
	(35)	**62**	**27**	(111)	239	128
Included in the following lines of the Group Cash Flow Statement:						
Taxes paid in net cash flows from continuing operating activities			**2**			80
Net cash flow from discontinued operating activities			**25**			12
Net cash inflow from discontinued investing activities			**–**			36

Differences between current tax charged and taxes paid arose principally due to the following factors:

- Corporation tax payments are generally made by instalment, based on estimated taxable profits, or the prior period's profits. Payments are made on account and the final liability is settled as the tax return is filed. Fluctuations in profits from year to year, one-off items and mark-to-market movements within the year may therefore give rise to divergence between the charge for the year and the taxes paid. In certain jurisdictions advance tax payments are required (based on estimated tax liabilities) which can result in overpayments. These are included as tax assets, to be refunded in a subsequent period (2019 saw a net refund in the UK); and
- PRT refunds are based on results in the preceding six-monthly PRT period, therefore PRT cash movements will reflect refunds on a six-month delay.

10. Earnings per ordinary share

Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options.

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £41 million (2019: £1,023 million loss) by the weighted average number of ordinary shares in issue during the year of 5,825 million (2019: 5,758 million). The number of shares excludes 11 million ordinary shares (2019: 22 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items, assists with understanding the underlying performance of the Group, as explained in note 2.

Information presented for diluted and adjusted diluted earnings per ordinary share uses the weighted average number of shares as adjusted for 91 million (2019: 44 million) potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Continuing and discontinued operations

	2020		2019	
Year ended 31 December	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	41	0.7	(1,023)	(17.8)
Net exceptional items after taxation (notes 2 and 7) [(i)]	1,220	21.0	862	15.0
Certain re-measurement (gains)/losses after taxation (notes 2 and 7) [(i)]	(883)	(15.2)	580	10.1
Earnings – adjusted basic	378	6.5	419	7.3
Earnings – diluted	41	0.7	(1,023)	(17.8)
Earnings – adjusted diluted	378	6.4	419	7.2

Continuing operations

	2020		2019	
Year ended 31 December	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	(274)	(4.7)	(964)	(16.8)
Net exceptional items after taxation (notes 2 and 7) [(i)]	1,184	20.3	868	15.1
Certain re-measurement (gains)/losses after taxation (notes 2 and 7) [(i)]	(745)	(12.8)	344	6.0
Earnings – adjusted basic	165	2.8	248	4.3
Earnings – diluted [(ii)]	(274)	(4.7)	(964)	(16.8)
Earnings – adjusted diluted	165	2.8	248	4.3

Discontinued operations

	2020		2019	
Year ended 31 December	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	315	5.4	(59)	(1.0)
Net exceptional items after taxation (notes 2 and 7)	36	0.7	(6)	(0.1)
Certain re-measurement (gains)/losses after taxation (notes 2 and 7)	(138)	(2.4)	236	4.1
Earnings – adjusted basic	213	3.7	171	3.0
Earnings – diluted	315	5.3	(59)	(1.0)
Earnings – adjusted diluted	213	3.6	171	2.9

(i) Net exceptional items after taxation and certain re-measurement (gains)/losses after taxation are adjusted to reflect the share attributable to non-controlling interests.
(ii) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share.

11. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	2020			2019		
	£m	Pence per share	Date of payment	£m	Pence per share	Date of payment
Prior year final dividend (i)	–	–	–	474	8.40	27 Jun 2019
Interim dividend	–	–	–	87	1.50	21 Nov 2019
	–	–	–	561		

(i) Included within the prior year final dividend are forfeited dividends of £nil (2019: £5 million) older than 12 years that were written back in accordance with Group policy.

On 2 April 2020 the Directors announced that the Board had taken the decision to cancel the 2019 final dividend payment of 3.5p per share, or £204 million, which was due to be paid in June 2020. The Directors do not propose the payment of an interim or final dividend for 2020.

In prior years the Company offered a scrip dividend alternative to its shareholders. £96 million of the £474 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was 94 pence per share resulting in the issue of 102 million new shares and £90 million of share premium. The scrip dividend alternative is no longer offered.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and so, despite the consolidated Group Balance Sheet containing negative retained earnings, the ultimate parent company, Centrica plc, currently has adequate realised profits within its retained earnings to support dividend payments. Refer to the Centrica plc Company Balance Sheet on page 195. At 31 December 2020, Centrica plc's company-only distributable reserves were c.£1.5 billion (2019: c.£2.7 billion). On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Centrica plc as appropriate to replenish its reserves.

12. Acquisitions, disposals and disposal groups classified as held for sale

(a) Business combinations and asset acquisitions

On 16 September 2020, the Group acquired certain customers and assets from Robin Hood Energy Limited for headline consideration and initial cash payment of £8 million, with further amounts receivable or payable based on final working capital balances and the number of customers who transition to the Group. The transaction was accounted for as an asset acquisition and gave rise to the recognition of an intangible asset in respect of customer relationships valued at £9 million, trade receivable balances of £16 million and customer credit balances and other financial liabilities of £8 million. The assets acquired form part of the British Gas segment.

No material measurement period adjustments have been made to acquisitions completed in prior periods.

(b) Disposals

On 23 December 2019 the Group agreed to sell its 382MW King's Lynn combined cycle gas turbine power station to RWE Generation. The disposal group was classified as held for sale as at 31 December 2019. The transaction completed on 12 February 2020, resulting in the receipt of consideration of £102 million, after adjustments for final working capital balances and after transaction costs. Prior to disposal the results of the disposed business were presented in the Centrica Business Solutions segment.

In March 2020 the Group announced the sale of its Danish gas and oil fields to INEOS and this completed on 19 November 2020. The Group received initial cash consideration of £25 million, and is required to make a contingent payment to the purchaser of £73 million in the event that the development of the fields does not progress. This contingent payment has been provided for and is included in consideration in the table below. The transaction resulted in a loss on disposal of £12 million after recycling of the foreign currency translation balance. Additional contingent consideration valued at £47 million could be due from INEOS based on the future development of the fields. No amount has been recognised in respect of this due to the level of uncertainty over any amount to be received. Immediately before the disposal, the Group settled an existing capital creditor by making a cash payment of £89 million. This has been included in cash flows from sales of businesses in the Group Cash Flow Statement. Prior to disposal the results of the disposed business were presented in the Upstream segment.

Neither disposal group is deemed to be a discontinued operation as they did not represent a separate major line of business or geographical area of operation that was material to the Group's results.

	King's Lynn power station £m	Danish fields (i) £m
Non-current assets	111	7
Current assets	2	5
Current liabilities	(4)	(6)
Non-current liabilities	(7)	(54)
Net assets/(liabilities) disposed of	**102**	**(48)**
Recycling of foreign currency translation reserve on disposal	–	(12)
Consideration received/(paid)	102	(48)
Loss on disposal before and after taxation	–	(12)

(i) In June 2020 the Danish fields were reported as a disposal group and classified as held for sale. Immediately prior to classification as held for sale an impairment reversal of £8 million was recognised within Exceptional operating costs, arising from the re-measurement of the disposal group to fair value less costs of disposal. The loss recognised on disposal arises primarily due to the recycling of the foreign currency translation reserve relating to the business.

Additionally, within the Upstream segment the disposal of the Group's interest in a North Sea gas and oil field for cash consideration of £5 million gave rise to a profit on disposal of £2 million.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate.

12. Acquisitions, disposals and disposal groups classified as held for sale

(c) Discontinued operations and assets and liabilities of disposal groups held for sale

On 24 July 2020 the Group announced that it had agreed to sell its North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc, for $3.6 billion in cash on a debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021.

The assets and liabilities of the disposal group have been classified as held for sale and are presented separately on the face of the Group Balance Sheet with effect from 24 July 2020. This is the date at which the disposal group was available for immediate sale, subject only to terms that are customary for sales of such assets, and from which the sale was considered highly probable.

Details of the assets and liabilities of the disposal group at 31 December 2020 are shown below.

	Direct Energy £m
Non-current assets	
Property, plant and equipment	82
Other intangible assets	227
Goodwill	1,487
Deferred tax assets	341
Derivative financial instruments	92
Other non-current financial assets	14
	2,243
Current assets	
Trade and other receivables, and contract-related assets	1,536
Inventories	80
Derivative financial instruments	67
Current tax assets	78
Cash and cash equivalents	107
	1,868
Assets of disposal groups classified as held for sale	**4,111**
Current liabilities	
Derivative financial instruments	(180)
Trade and other payables, and contract-related liabilities	(1,231)
Current tax liabilities	(21)
Provisions for other liabilities and charges	(23)
Lease liabilities	(12)
	(1,467)
Non-current liabilities	
Deferred tax liabilities	(402)
Derivative financial instruments	(60)
Provisions for other liabilities and charges	(13)
Retirement benefit obligations	(21)
Lease liabilities	(23)
	(519)
Liabilities of disposal groups classified as held for sale	**(1,986)**
Net assets of disposal groups classified as held for sale	**2,125**

Included within the Group's foreign currency translation and cash flow hedging reserves are £61 million and £5 million of credits respectively in respect of the disposal group. These amounts have previously been recognised in the Group Statement of Comprehensive Income and will be recycled to the Group Income Statement on disposal of the Direct Energy business. In addition, the Group's actuarial gains and losses reserve includes accumulated losses of £30 million relating to the disposal group.

Because the disposal group represents a separate major line of business and geographical operations, its results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Income and Group Cash Flow Statement.

12. Acquisitions, disposals and disposal groups classified as held for sale

The results of the Direct Energy business for 2020 and 2019 are as follows:

	2020			2019		
Year ended 31 December	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Results for the year £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Revenue	**9,483**	**(912)**	**8,571**	10,867	(1,187)	9,680
Cost of sales	**(8,621)**	**1,495**	**(7,126)**	(9,849)	2,412	(7,437)
Re-measurement and settlement of energy contracts	**–**	**(399)**	**(399)**	–	(1,562)	(1,562)
Gross profit/(loss)	**862**	**184**	**1,046**	1,018	(337)	681
Operating costs	**(610)**	**(22)**	**(632)**	(767)	20	(747)
Operating profit/(loss)	**252**	**162**	**414**	251	(317)	(66)
Finance costs	**(6)**	**–**	**(6)**	(4)	–	(4)
Profit/(loss) before taxation	**246**	**162**	**408**	247	(317)	(70)
Taxation on profit/(loss) (i)	**(33)**	**(60)**	**(93)**	(76)	87	11
Profit/(loss) from discontinued operations, net of tax	**213**	**102**	**315**	171	(230)	(59)

(i) During 2020 a historic Canadian exploration and production deferred tax asset was written off. The associated charge of £20 million is included as an exceptional item within discontinued operations. See note 7 for further details.

13. Property, plant and equipment

PP&E includes significant investment in power stations and gas and liquid production assets. Once operational, all assets are depreciated over their useful lives.

(a) Carrying amounts

	2020					2019				
	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	**Total £m**	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	Total £m
Cost										
1 January prior to adoption of IFRS 16 in 2019	361	528	953	14,926	**16,768**	75	568	1,059	15,476	17,178
Right-of-use assets recognised on adoption of IFRS 16 in 2019	–	–	–	–	**–**	254	26	65	33	378
Additions and capitalised borrowing costs	4	242	16	274	**536**	19	49	44	327	439
Acquisitions	–	–	–	–	**–**	1	–	–	–	1
Disposals/retirements	(7)	(36)	(124)	(133)	**(300)**	–	(45)	(3)	(491)	(539)
Write-downs	–	–	–	–	**–**	–	–	2	(3)	(1)
Transfers	–	–	–	3	**3**	–	(24)	–	5	(19)
Transfers to disposal groups held for sale	(39)	(152)	(6)	(120)	**(317)**	–	–	(208)	(16)	(224)
Decommissioning liability and dilapidations revisions and additions (note 21)	–	–	5	252	**257**	1	–	–	(127)	(126)
Lease modifications and re-measurements	(17)	8	–	–	**(9)**	15	(39)	–	–	(24)
Exchange adjustments	1	(14)	(1)	94	**80**	(4)	(7)	(6)	(278)	(295)
31 December	**303**	**576**	**843**	**15,296**	**17,018**	361	528	953	14,926	16,768
Accumulated depreciation and impairment										
1 January	90	279	762	12,504	**13,635**	23	211	782	12,038	13,054
Charge for the year	38	97	29	508	**672**	45	91	27	644	807
Impairments/(write-backs)	8	8	23	443	**482**	23	11	57	478	569
Disposals/retirements	(7)	(30)	(102)	(133)	**(272)**	–	(18)	(18)	(474)	(510)
Transfers to disposal groups held for sale	(16)	(97)	(5)	(116)	**(234)**	–	(12)	(85)	(5)	(102)
Exchange adjustments	–	–	–	92	**92**	(1)	(4)	(1)	(177)	(183)
31 December	**113**	**257**	**707**	**13,298**	**14,375**	90	279	762	12,504	13,635
NBV at 31 December	**190**	**319**	**136**	**1,998**	**2,643**	271	249	191	2,422	3,133

(b) Assets in the course of construction included in above carrying amounts

31 December	**2020 £m**	2019 £m
Plant, equipment and vehicles	**10**	30
Gas production	**232**	177
Power generation	**7**	20

(c) Additional information relating to right-of-use assets included in the above

	2020					2019				
	Land and buildings £m	**Plant, equipment and vehicles £m**	**Power generation £m**	**Gas production and storage £m**	**Total £m**	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas Production and storage £m	Total £m
Additions	**4**	**234**	**–**	**10**	**248**	16	15	–	37	68
Depreciation charge for the year	**(37)**	**(55)**	**(11)**	**(21)**	**(124)**	(43)	(34)	(11)	(13)	(101)
NBV at 31 December [(i)]	**145**	**239**	**8**	**47**	**439**	231	83	20	56	390

(i) In 2020 £36 million of transfers to held for sale have taken place, in addition to other movements relating to right-of-use assets not disclosed individually.

Further information on the Group's leasing arrangements is provided in note 23.

14. Interests in joint ventures and associates

Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include the investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear power station fleet.

(a) Interests in joint ventures and associates

	2020 Investments in joint ventures and associates £m	2019 Investments in joint ventures and associates £m
1 January	**1,306**	1,661
Additions	**10**	1
Impairment	**(483)**	(372)
Share of profit/(loss) for the year	**21**	(13)
Share of other comprehensive income	**58**	29
Dividends [i]	**(72)**	(1)
Other movements	**3**	1
31 December	**843**	1,306

(i) In 2020, a non-cash £10 million tax credit was received in lieu of payment of a dividend.

(b) Share of joint ventures' and associates' assets and liabilities

	2020			2019
31 December	Associates Nuclear £m	Other £m	**Total £m**	Total £m
Share of non-current assets	4,440	17	**4,457**	4,425
Share of current assets	751	4	**755**	697
	5,191	21	**5,212**	5,122
Share of current liabilities	(202)	(3)	**(205)**	(138)
Share of non-current liabilities	(2,720)	–	**(2,720)**	(2,717)
	(2,922)	(3)	**(2,925)**	(2,855)
Cumulative impairment	(1,439)	(5)	**(1,444)**	(961)
Interests in joint ventures and associates	**830**	**13**	**843**	1,306
Net cash included in share of net assets	105	–	**105**	56

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

15. Other intangible assets and goodwill

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands usually arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities, the assembled workforce and also arises from items such as deferred tax. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates/Renewable Energy Certificates (ROCs/RECs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to PP&E or is deemed not commercially viable and is written down.

(a) Carrying amounts

	2020						2019					
	Customer relation-ships and brands £m	Application software (i) (ii) £m	EUA/ ROC/RECs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m	Customer relation-ships and brands £m	Application software (i) (ii) £m	EUA/ ROC/RECs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	764	2,021	179	320	3,171	6,455	830	1,837	321	304	3,298	6,590
Additions and capitalised borrowing costs	9	99	1,047	61	–	1,216	–	200	933	216	–	1,349
Acquisitions	–	–	–	–	3	3	7	6	–	–	10	23
Disposals/retirements and surrenders	(3)	(10)	(818)	–	–	(831)	(43)	(28)	(1,068)	(14)	(76)	(1,229)
Write-downs	–	–	–	(24)	–	(24)	–	–	–	(178)	–	(178)
Transfers	–	–	–	(3)	–	(3)	–	–	–	–	–	–
Transfers to disposal groups held for sale	(576)	(360)	(195)	(1)	(1,538)	(2,670)	–	24	–	(5)	–	19
Exchange adjustments	9	2	(5)	(1)	15	20	(30)	(18)	(7)	(3)	(61)	(119)
31 December	203	1,752	208	352	1,651	4,166	764	2,021	179	320	3,171	6,455
Accumulated amortisation												
1 January	580	1,132	–	117	593	2,422	596	859	–	117	562	2,134
Amortisation (iii)	27	231	–	–	–	258	38	228	–	–	–	266
Disposals/retirements and surrenders	(3)	(9)	–	–	–	(12)	(31)	(22)	–	–	–	(53)
Impairments	–	83	–	130	140	353	–	76	–	–	31	107
Transfers to disposal groups held for sale	(520)	(269)	–	–	(10)	(799)	–	–	–	–	–	–
Exchange adjustments	7	(2)	–	–	(1)	4	(23)	(9)	–	–	–	(32)
31 December	91	1,166	–	247	722	2,226	580	1,132	–	117	593	2,422
NBV at 31 December	112	586	208	105	929	1,940	184	889	179	203	2,578	4,033

(i) Application software includes assets under construction with a cost of £130 million (2019: £259 million).
(ii) The remaining amortisation period of individually material application software assets, which had a carrying value of £239 million (2019: £270 million), is between three and six years.
(iii) Amortisation of £258 million (2019: £266 million) has been recognised in operating costs from continuing and discontinued operations before exceptional items.

15. Other intangible assets and goodwill

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

Goodwill acquired through business combinations, and indefinite-lived intangible assets, have been allocated for impairment testing purposes to individual CGUs or groups of CGUs, each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes.

		2020			2019		
31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	**Carrying amount of goodwill £m**	**Carrying amount of indefinite-lived intangible assets (i) £m**	**Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible assets (i) £m	Total £m
CGUs							
Continuing operations:							
British Gas	AlertMe/Dyno-Rod	**63**	**57**	**120**	63	57	120
Bord Gáis Energy	Bord Gáis Energy	**16**	**–**	**16**	15	–	15
Energy Marketing & Trading	Neas Energy	**151**	**–**	**151**	142	–	142
Centrica Business Solutions	ENER-G/Panoramic Power/REstore/SmartWatt	**104**	**–**	**104**	178	2	180
	Enron Direct/Electricity Direct	**181**	**–**	**181**	181	–	181
Upstream	Newfield/Heimdal/Venture/Bayerngas	**414**	**–**	**414**	474	–	474
Discontinued operations:							
Direct Energy (ii)	Direct Energy/ATCO/CPL/WTU/FCP/Bounce/Residential Services Group/Strategic Energy/HEM	**–**	**–**	**–**	1,525	4	1,529
		929	**57**	**986**	2,578	63	2,641

(i) The indefinite-lived intangible assets relate mainly to the Dyno-Rod brand.
(ii) Direct Energy is included in assets held for sale at 31 December 2020.

16. Deferred tax assets and liabilities

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax assets and liabilities recognised by the Group relate to capital investments, decommissioning assets and provisions, tax losses, fair value movements on derivative financial instruments, PRT and pensions.

	Accelerated tax depreciation (corporation tax) £m	Net decommissioning (i) £m	Losses carried forward (ii) £m	Other timing differences (iii) £m	Marked to market positions £m	Net deferred PRT (iv) £m	Retirement benefit obligation and other provisions £m	Total £m
1 January 2019	(1,056)	880	323	4	(43)	127	(87)	148
Credit/(charge) to income	142	(2)	(70)	24	159	11	(74)	190
(Charge)/credit to equity	–	–	–	(1)	2	–	78	79
Disposal of businesses	(32)	–	–	–	–	–	–	(32)
Exchange and other adjustments	22	(11)	2	(12)	16	–	–	17
31 December 2019	(924)	867	255	15	134	138	(83)	**402**
Credit/(charge) to income	225	9	(114)	(18)	(153)	(13)	(30)	**(94)**
(Charge)/credit to equity	–	–	–	–	(12)	–	122	**110**
Transferred to held for sale	37	–	(6)	69	(33)	–	(5)	**62**
Exchange and other adjustments	–	–	1	6	–	–	–	**7**
31 December 2020	**(662)**	**876**	**136**	**72**	**(64)**	**125**	**4**	**487**

(i) Net decommissioning includes deferred tax assets of £1,145 million (2019: £1,040 million) in respect of decommissioning provisions.
(ii) The losses arise principally from accelerated allowances for upstream investment expenditure, for which equivalent deferred tax liabilities are included under accelerated tax depreciation.
(iii) Other timing differences include a deferred tax asset of £60 million (2019: £55 million) in respect of unrelieved interest costs.
(iv) The deferred PRT amounts include the effect of deferred corporation tax as PRT is chargeable to corporation tax.

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.

	2020		2019	
31 December	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Gross deferred tax balances	**1,655**	**(1,168)**	1,820	(1,418)
Offsetting deferred tax balances	**(1,019)**	**1,019**	(1,267)	1,267
Net deferred tax balances (after offsetting for financial reporting purposes)	**636**	**(149)**	553	(151)

Deferred tax assets arise typically on decommissioning provisions, trading losses carried forward, retirement benefit obligations and marked to market positions. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to gas and oil production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date, the Group had certain unrecognised deductible temporary differences of £2,205 million (2019: £3,537 million), of which £2,089 million (2019: £2,620 million) related to carried forward tax losses available for utilisation against future taxable profits. Some £2 million (2019: £44 million) of these losses will expire within one to five years. All other temporary differences have no expiry date.

No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2019: £nil).

17. Trade and other receivables, and contract-related assets

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of provisions for bad debt. Other receivables include payments made in advance to our suppliers. Contract-related assets are balances arising as a result of the Group's contracts with customers in the scope of IFRS 15.

	2020		2019	
31 December	**Current £m**	**Non-current £m**	Current £m	Non-current £m
Financial assets:				
Trade receivables	**1,379**	**–**	2,138	2
Unbilled downstream energy income	**532**	**–**	1,342	–
Other accrued energy income	**791**	**–**	1,003	–
Other accrued income	**114**	**–**	131	–
Cash collateral posted (note 24)	**56**	**–**	155	–
Other receivables (including loans and contract assets)	**219**	**31**	301	38
	3,091	**31**	5,070	40
Less: provision for credit losses	**(591)**	**–**	(589)	–
	2,500	**31**	4,481	40
Non-financial assets: prepayments, other receivables and costs to obtain or fulfill a contract with a customer	**301**	**114**	358	114
	2,801	**145**	4,839	154

The amounts above include gross amounts receivable arising from the Group's IFRS 15 contracts with customers of £1,302 million (2019: £2,019 million). Additionally, accrued income of £624 million (2019: £1,481 million) arising under IFRS 15 contracts is included.

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

	2020		2019	
31 December	**Current £m**	**Non-current £m**	Current £m	Non-current £m
Financial assets by class:				
Residential customers	**1,249**	**–**	1,722	12
Business customers	**930**	**25**	2,104	26
Treasury, trading and energy procurement counterparties	**912**	**6**	1,244	2
	3,091	**31**	5,070	40
Less: provision for credit losses	**(591)**	**–**	(589)	–
	2,500	**31**	4,481	40

17. Trade and other receivables, and contract-related assets

Credit losses and provisions for Trade and other receivables

Receivables from residential and business customers are generally considered to be credit impaired when the payment is past the contractual due date. The Group applies different definitions of default for different groups of customers, ranging from 60 days past the due date to six to twelve months from the issuance of a final bill. Receivables are generally written off only once a period of time has elapsed since the final bill. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt.

The table below shows credit impaired balances in gross receivables (those that are past due) and those that are not yet due and therefore not considered to be credit impaired. The disclosure includes trade and other receivables in the Direct Energy business which are presented as assets held for sale on the face of the Group Balance Sheet.

Gross trade and other receivables (including those classified as assets held for sale) 31 December	**2020** **£m**	2019 £m
Balances that are not past due		
Included in trade and other receivables	**2,029**	3,718
Included in assets held for sale	**1,276**	–
	3,305	3,718
Balances that are past due		
Included in trade and other receivables	**1,062**	1,352
Included in assets held for sale	**238**	–
	1,300	1,352
Total gross financial assets within trade and other receivables and assets held for sale	**4,605**	5,070
Included in:		
Trade and other receivables	**3,091**	5,070
Assets held for sale	**1,514**	–

The IFRS 9 impairment model is applicable to the Group's financial assets including trade receivables, contract assets and other financial assets as described in note S3. As the majority of the relevant balances are trade receivables and contract assets to which the simplified model applies, this disclosure focuses on these balances.

The provision for credit losses for trade receivables and contract assets is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. Expected credit losses on receivables due from treasury, trading and energy procurement counterparties are not significant (see note S3 for further analysis of this determination). For residential and business customers default rates are calculated initially by operating segment considering historical loss experience and applied to trade receivables within a provision matrix. The matrix approach allows application of different default rates to different groups of customers with similar characteristics. These groups are determined by a number of factors including; the nature of the customer, the payment method selected and where relevant, the sector in which they operate. The characteristics used to determine the groupings of receivables are the factors that have the greatest impact on the likelihood of default. The rate of default increases once the balance is 30 days past due.

Concentration of credit risk in Trade and other receivables

Treasury, trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties, and that risk is assessed primarily by reference to the credit ratings rather than to the ageing of the relevant balance. Counterparty credit rating information is given in note S3.

The majority of the Group's credit exposure arises in the British Gas and Centrica Business Solutions segments and relates to residential and business energy customers. The credit risk associated with these customers is assessed as described above, using a combination of the age of the receivable in question, internal ratings based on a customer's payment history, and external data from credit rating agencies. The disclosures below reflect the information that is reported internally for credit risk management purposes in these segments.

17. Trade and other receivables, and contract-related assets

British Gas residential energy credit risk

Of the Group total of £1,379 million billled trade receivables, the British Gas reporting segment contributes £801 million. As described above, credit risk is concentrated in receivables from residential energy customers who pay in arrears. Gross receivables from these customers amount to £562 million and are analysed below.

Trade receivables due from British Gas residential energy customers as at 31 December (i)	**2020**				2019			
Days beyond invoice date (ii)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Direct debits (iii)								
Gross receivables	28	20	34	**82**	37	19	38	94
Provision	–	–	(2)	**(2)**	–	–	(1)	(1)
Net	28	20	32	**80**	37	19	37	93
Payment on receipt of bill (iii)								
Gross receivables	76	21	222	**319**	95	19	171	285
Provision	(2)	(3)	(106)	**(111)**	(3)	(3)	(65)	(71)
Net	74	18	116	**208**	92	16	106	214
Final bills (iv)								
Gross receivables	11	10	140	**161**	9	10	139	158
Provision	(2)	(5)	(114)	**(121)**	(2)	(5)	(105)	(112)
Net	9	5	26	**40**	7	5	34	46
Total net British Gas residential energy customers trade receivables	**111**	**43**	**174**	**328**	136	40	177	353

(i) The receivables information presented in this table relates to downstream customers who pay energy bills using the methods presented. It excludes low residual credit risk amounts, such as balances in the process of recovery through pay-as-you-go energy (PAYGE) arrangements and amounts receivable from PAYGE energy vendors. Gross amounts in the process of recovery through PAYGE arrangements at 31 December 2020 are £168 million (2019: £195 million), against which a provision of £126 million is held (2019: £139 million).

(ii) This ageing analysis is presented relative to invoicing date, and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to residential energy customers. Amounts paid on receipt of a bill (PORB), which are settled using bank transfers, cash or cheques are typically due within 14 days of invoicing. Direct debit customers typically pay in equal installments over a twelve-month period.

(iii) Receivables settled by direct debit are deemed to present a lower credit risk than PORB amounts. This is reflected in the relative level of provision held for these types of receivables.

(iv) Final bill customers are those who are no longer customers of the Group and have switched energy supplier. These balances are deemed to have the highest credit risk.

Unbilled downstream energy income at 31 December 2020 includes gross balances of £324 million in respect of British Gas residential energy customers (2019: £342 million), against which a provision of £17 million is held (2019: £7 million).

17. Trade and other receivables, and contract-related assets

Centrica Business Solutions energy credit risk

Of the Group total of £1,379 million billed trade receivables, the Centrica Business Solutions reporting segment contributes £451 million. As described above, credit risk is concentrated in receivables from business energy customers who pay in arrears. Gross receivables from these customers amount to £375 million and are analysed below.

Trade receivables due from Centrica Business Solutions business energy customers as at 31 December	**2020**				2019			
Days beyond invoice date (i)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Commercial and industrial (ii)								
Gross receivables	18	35	76	**129**	27	16	124	167
Provision	–	–	(27)	**(27)**	–	–	(42)	(42)
Net	18	35	49	**102**	27	16	82	125
Small and medium-sized entities (SME)								
Gross receivables	36	19	191	**246**	56	21	182	259
Provision	–	(1)	(132)	**(133)**	(1)	(3)	(106)	(110)
Net	36	18	59	**113**	55	18	76	149
Total net Centrica Business Solutions business energy customers trade receivables	**54**	**53**	**108**	**215**	82	34	158	274

(i) This ageing analysis is presented relative to invoicing date, and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for SME customers are 10 working days. Credit terms for Commercial and Industrial customers are bespoke and are set based on the commercial agreement with each customer.

(ii) This category includes low credit risk receivables, including those from public sector and customers with high turnover (greater than £100 million).

Unbilled downstream energy income at 31 December 2020 includes gross balances of £167 million in respect of Centrica Business Solutions business energy customers (2019: £216 million), against which a provision of £8 million is held (2019: £7 million).

Credit loss charge for trade and other receivables

The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

	2020				2019			
	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(387)	(198)	(4)	**(589)**	(343)	(222)	(4)	(569)
Increase in impairment of trade receivables (predominantly related to credit impaired trade receivables) (i) (ii) (iii) (iv)	(174)	(126)	–	**(300)**	(145)	(58)	–	(203)
Receivables written off (v)	129	87	–	**216**	101	82	–	183
31 December (vi)	**(432)**	**(237)**	**(4)**	**(673)**	(387)	(198)	(4)	(589)

(i) £90 million of this impairment relates to discontinued operations (2019: £85 million).

(ii) Includes £269 million (2019: £190 million) of credit losses related to trade receivables resulting from contracts in the scope of IFRS 15.

(iii) All loss allowances reflect the lifetime expected credit losses on trade receivables and contract assets.

(iv) Excludes recovery of previously written-off receivables of £15 million (2019: £6 million). Due to the large number of individual receivables and the matrix approach employed, any reduction in provision is reflected in a reduced charge for the relevant period, rather than in separately identifiable reversals of previous provisions.

(v) Materially all write-offs relate to trade receivables where enforcement activity is ongoing.

(vi) Included in the 31 December 2020 closing balance is £82 million, relating to Direct Energy and within assets held for sale.

Year ended 31 December	**2020 £m**	2019 £m
Increase in impairment provision for trade receivables (per above)	**(300)**	(203)
Less discontinued operations	**90**	85
Less recovery of previously written-off receivables	**15**	6
Credit losses on financial assets from continuing operations (per Group Income Statement)	**(195)**	(112)

Enforcement activity continues in respect of balances that have been written off unless there are specific known circumstances (such as bankruptcy) that render further action futile. COVID-19 restrictions caused a hiatus in enforcement activity during the second and third quarters of 2020.

17. Trade and other receivables, and contract-related assets

Sensitivity to changes in assumptions

Typically, the most significant assumption included within the expected credit loss provisioning model that gives rise to estimation uncertainty is that future performance will be reflective of past performance and that there will be no significant change in the payment profile or recovery rates within each identified group of receivables. To address this risk, the Group reviews and updates default rates, by group, on a regular basis to ensure they incorporate the most up to date assumptions along with forward-looking information where available and relevant. The Group also considers regulatory changes and customer segment specific factors that may have an impact, now or in the future, on the recoverability of the balance.

The specific consideration of forward-looking information in the impairment model does not usually give rise to significant changes in the levels of credit losses. However, the impacts of the global COVID-19 pandemic and associated government responses in geographies in which the Group operates have caused a significant deterioration in economic outlook. This has increased the level of estimation uncertainty inherent in determining credit loss provisions for the Group's trade receivables.

Where customers experience difficulties in settling balances, the increased ageing of these amounts results in an increase in provisions held in respect of them under the provision matrix approach employed. The Group has also considered changes in customer payment patterns, such as direct debit cancellations and, in the case of business counterparties, the specific circumstances of the customers and the economic impacts of COVID-19 on the sectors in which they operate.

The Group has considered macroeconomic forecasts in determining the level of provisions for credit losses. Government support schemes currently in place for the benefit of customers are expected to mitigate, to some degree, the near-term impacts of any forecast economic decline on billed financial assets recognised at 31 December 2020. However, unbilled energy income is more susceptible to credit risk from such forward-looking factors due to the length of time between the balance sheet date and collection of the amounts in cash.

During 2020 the Group recognised impairment charges of £195 million (2019: £112 million) in respect of financial assets, representing 1.6% of Group revenue (2019: 0.9%) and 1.3% of Group revenue from business performance (2019: 0.7%). As described above, the majority of the Group's credit exposure arises in respect of downstream energy receivables in British Gas and Centrica Business Services. Credit losses in respect of these assets amounted to £179 million (2019: £105 million). This represents 2.2% (2019: 1.2%) of total UK downstream energy supply revenue from these segments of £8,239 million (2019: £8,671 million). Further details of segmental revenue are provided in note 4. This increase in credit loss charges reflects the increase in losses incurred by the Group as a result of the COVID-19 pandemic, and losses expected in the future as a result of a generally worsening macroeconomic outlook.

Due to the different level of risks presented by billed and unbilled receivables, these asset groups are considered separately in the analysis below.

Billed trade receivables

	31 December 2020 £m	31 December 2019 £m (ii)
Gross billed receivables	**1,379**	1,395
Provision	**(566)**	(502)
Net balance	**813**	893

	31 December 2020 %	31 December 2019 %
Provision coverage	**41**	36
Sensitivity	**£m**	
Impact on billed receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage (i)	**(14)/14**	

(i) Credit risk in the Group is impacted by a large number of interacting factors.
(ii) Figures as at 31 December 2019 exclude the Direct Energy business, which is classified as a disposal group held for sale at 31 December 2020, therefore providing a meaningful comparison.

Cash collection relative to billing has remained generally strong throughout the pandemic to date. While any delays in payment and changes to payment methods by customers in the Group's downstream operations have driven some increase in provisions in the relevant segments, credit risk increases arising from macroeconomic conditions are expected to be mitigated by government support schemes in place for the benefit of customers. The average cash collection cycle of the Group means that significant amounts are expected to be collected before the mitigation offered by such schemes ends. However, as part of management's assessment of the adequacy of the bad debt provision, a high-level increase of £30 million (for both billed and unbilled debt) was booked in addition to the initial matrix model output, which also gave rise to an increase. This was deemed to reflect the possible increase in bad debt as a result of an increase in forecast unemployment (using the Office for Budget Responsibility's unemployment forecast peaking at 8% by mid-2021). It is highly uncertain when unemployment might peak and at what rate, how much debt recorded as at 31 December 2020 remains outstanding at that point, and how unemployment might ultimately reduce the collection of such debt. The table above and the unbilled section below provides details of the sensitivity of moving the bad provision by a further 1%.

The Group's services, upstream and trading operations are less susceptible to credit risk. No significant deterioration of credit risk has been experienced or is expected in the relevant segments in respect of billed trade receivables recognised at 31 December 2020, taking into account cash collection cycles in those areas of the Group and credit rating information (see note S3).

17. Trade and other receivables, and contract-related assets

Unbilled downstream energy income

The table below shows the impact of the worsening economic conditions and outlook on unbilled downstream energy income for the Group as a whole.

	31 December 2020 £m	31 December 2019 £m (ii)
Gross unbilled receivables	**532**	606
Provision	**(25)**	(13)
Net balance	**507**	593

	31 December 2020 %	31 December 2019 %
Provision coverage	**5**	2
Sensitivity	**£m**	
Impact on unbilled receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage (i)	**(5)/5**	

(i) Credit risk in the Group is impacted by a large number of interacting factors.
(ii) Figures as at 31 December 2019 exclude the Direct Energy business, which has been classified as a disposal group held for sale at 31 December 2020, therefore providing a meaningful comparison.

Unbilled downstream energy income is typically provided at a significantly lower rate than billed debt. This is because a large proportion of this debt once billed will be subject to the very short cash collection cycles of the Group's downstream energy supply businesses. However, negative forward-looking macroeconomic information, coupled with the expected cessation of government support schemes for customers is reflected in a significantly increased rate of provision for unbilled downstream energy income when compared to the prior year.

Assets held for sale

The Direct Energy business has been classified as a disposal group held for sale. Assets held for sale on the Group Balance Sheet includes gross billed trade receivables of £712 million, against which a provision of £82 million was held, reflecting a provision coverage of 12%. In 2019 the Direct Energy business held trade receivables of £743 million against which a provision of £74 million was held, reflecting a provision coverage of 10%.

Assets held for sale also includes gross unbilled downstream energy income of £635 million. In 2019 the Direct Energy business held unbilled downstream energy income of £736 million.

North America trade and other receivables are typically subject to much lower credit risk than similar UK assets. This is reflected in the lower provision rates in the Direct Energy segment. In determining required provisions for expected credit losses for receivables at 31 December 2020, the methodology used by management has been updated to reflect current and forecast macroeconomic conditions, and no further provisions were deemed necessary. Trade and other receivables classified as held for sale were disposed of on completion of the sale of Direct Energy to NRG on 5 January 2021.

18. Inventories

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	**2020 £m**	2019 £m
Gas and oil in storage and transportation (i)	**103**	157
Other raw materials and consumables	**169**	190
Finished goods and goods for resale	**52**	84
	324	431

(i) Includes oil inventory and gas in storage held at fair value of £83 million (2019: £43 million).

Excluding discontinued operations, the Group consumed £423 million of inventories (2019: £560 million) during the year. Write-downs amounting to £15 million (2019: £28 million) were charged to the Group Income Statement in the year.

19. Derivative financial instruments

The Group generally uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities associated with treasury management and energy sales and procurement, and for proprietary energy trading purposes. During 2020 the Group also used derivatives to hedge the exchange risk arising on the net assets of its US dollar Direct Energy subsidiaries. Derivatives are held at fair value.

For accounting purposes, derivatives are either classified as held for trading, in which case changes in their fair value are recognised in the Group Income Statement, or they are designated in hedging relationships. Where derivatives are in hedging relationships, the treatment of changes in their fair value depends on the nature of that relationship, and whether it represents a fair value hedge, a cash flow hedge, or a net investment hedge. Note S5 provides further detail on the Group's hedge accounting. The table below gives a high-level summary of the Group's accounting for its derivative contracts.

Purpose	Classification	Accounting treatment
Proprietary energy trading and treasury management.	Held for trading and fair value hedges.	Changes in fair value recognised in the Group's business performance results for the year.
Treasury management and hedging of exchange risk on net assets of US dollar Direct Energy subsidiaries.	Cash flow and net investment hedges.	Effective portion of hedge initially recognised in the Group Statement of Other Comprehensive Income. Gains and losses are recycled to the Group Income Statement when the hedged item impacts profit or loss. Ineffective portions of the hedge are recognised immediately in the Group's business performance results for the year.
Energy procurement and optimisation.	Held for trading.	Changes in fair value recognised in certain re-measurements.

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

31 December	**2020** Assets £m	**2020** Liabilities £m	2019 Assets £m	2019 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives – for procurement/optimisation	**585**	**(445)**	553	(1,245)
Energy derivatives – for proprietary trading	**726**	**(667)**	917	(769)
Interest rate derivatives	**3**	**–**	3	(23)
Foreign exchange derivatives	**49**	**(46)**	104	(104)
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives	**182**	**(1)**	105	(2)
Foreign exchange derivatives	**204**	**(9)**	131	(2)
Total derivative financial instruments	**1,749**	**(1,168)**	1,813	(2,145)
Included within:				
Derivative financial instruments – current	**1,224**	**(747)**	1,320	(1,854)
Derivative financial instruments – non-current	**366**	**(181)**	493	(291)
Assets and liabilities held for sale	**159**	**(240)**	–	–

Included in derivative liabilities above is £77 million (2019: £12 million) relating to virtual gas storage arrangements. These contracts give the parties rights to put and call gas volumes over their term, economically mirroring physical storage arrangements. Optimisation of virtual storage contracts under related commodity sale and purchase arrangements with the same parties has given rise to net operating cash inflows of £40 million during 2020 (2019: £21 million). These cash flows arise from the normal commodity trading activities of the Group, and are therefore operating in nature, but are separately disclosed because the timing of cash flows under the arrangements can give rise to a cash flow benefit akin to a financing arrangement.

19. Derivative financial instruments

The contracts included within energy derivatives are subject to a wide range of detailed specific terms, but comprise the following general components, analysed on a net carrying value basis:

31 December	2020 £m	2019 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	(26)	249
North America [(i)]	(81)	(165)
Other derivative contracts including structured gas sale and purchase arrangements	306	(628)
Net total	199	(544)

(i) Derivatives held by the Direct Energy business are classified as assets and liabilities held for sale at 31 December 2020.

Net gains/(losses) on derivative financial instruments due to re-measurement	2020		2019	
31 December	Income Statement £m	Equity £m	Income Statement £m	Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading	346	–	(551)	–
Derivative financial instruments in hedge accounting relationships	73	102	55	(53)
	419	102	(496)	(53)

20. Trade and other payables, and contract liabilities

Trade and other payables include accruals and are principally amounts we owe to our suppliers. Financial deferred income represents monies received from customers in advance of the delivery of goods or services that may be returned to the customer if future delivery does not occur. For example, downstream customers with a credit balance may request repayment of the outstanding amount in cash, rather than taking delivery of commodity. By contrast, contract liabilities and non-financial deferred income arise when the Group receives consideration from a customer in advance of performance, and has a non-financial liability to deliver future goods or services in return.

	2020		2019	
31 December	Current £m	Non-current £m	Current £m	Non-current £m
Financial liabilities:				
Trade payables	(440)	–	(571)	(1)
Deferred income [(i)]	(331)	–	(328)	–
Capital payables	(114)	–	(181)	(96)
Cash collateral received (note 24)	(68)	–	(35)	–
Other payables	(225)	(92)	(327)	(36)
Accruals:				
Commodity costs	(1,019)	–	(1,866)	–
Transportation, distribution and metering costs	(258)	–	(401)	–
Operating and other accruals	(584)	–	(783)	–
	(1,861)	–	(3,050)	–
	(3,039)	(92)	(4,492)	(133)
Non-financial liabilities:				
Other payables and accruals	(589)	(2)	(850)	(1)
Contract liabilities	(26)	(20)	(55)	(15)
Deferred income	(68)	–	(136)	(3)
	(3,722)	(114)	(5,533)	(152)

Maturity profile of financial liabilities within current trade and other payables

31 December	2020 £m	2019 £m
Less than 90 days	(2,817)	(4,245)
90 to 182 days	(90)	(140)
183 to 365 days	(132)	(107)
	(3,039)	(4,492)

(i) Includes downstream customer credit balances for amounts billed in advance of energy supply.

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21. Provisions for other liabilities and charges

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing and/or amount of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Further provisions relate to sale and purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters.

Current	1 January 2020 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Utilised £m	Transfers (iv) £m	Exchange adjustments £m	**31 December 2020 £m**
Restructuring costs	(56)	(100)	–	22	69	–	1	**(64)**
Decommissioning costs (i) (ii)	(152)	(2)	–	–	63	18	–	**(73)**
Sale/purchase contract loss provision	(28)	(3)	–	3	20	–	–	**(8)**
Other (iii)	(48)	(48)	–	6	43	4	–	**(43)**
	(284)	**(153)**	**–**	**31**	**195**	**22**	**1**	**(188)**

Non-current	1 January 2020 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers (iv) £m	Exchange adjustments £m	**31 December 2020 £m**
Restructuring costs	(8)	–	–	3	–	–	(1)	**(6)**
Decommissioning costs (i) (ii)	(2,071)	(32)	(22)	14	(249)	35	(10)	**(2,335)**
Sale/purchase contract loss provision	(36)	(19)	–	–	–	28	–	**(27)**
Other (iii)	(60)	(8)	(1)	5	(8)	1	1	**(70)**
	(2,175)	**(59)**	**(23)**	**22**	**(257)**	**64**	**(10)**	**(2,438)**

Included within the above liabilities are the following financial liabilities:

	2020		2019	
31 December	**Current £m**	**Non-current £m**	Current £m	Non-current £m
Restructuring costs	**(64)**	**(6)**	(56)	(8)
Provisions other than restructuring costs	**(43)**	**(83)**	(71)	(86)
	(107)	**(89)**	(127)	(94)

(i) Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The payment dates of decommissioning costs are dependent on the lives of the facilities, but utilisation of the provision is expected to occur until the 2040s. During the year the rate used to discount provisions was reduced to 0%. See note 3.
(ii) Included in the provision balance as at 31 December 2020 is £2,055 million held in Spirit Energy, £332 million in relation to the Rough field, and £21 million in the remainder of the business.
(iii) Other provisions have been made for dilapidations, insurance, legal, warranty and various other claims.
(iv) Includes amounts transferred between current and non-current and transfers to disposal groups held for sale. The split is as below:

Transfers	**Current**		**Non-current**	
31 December 2020	**Transfer to/(from) non-current £m**	**Transfer to disposal group held for sale £m**	**Transfer to/(from) current £m**	**Transfer to disposal group held for sale £m**
Decommissioning costs (i)	**17**	**1**	**(17)**	**52**
Sale/purchase contract loss provision	**(18)**	**18**	**18**	**10**
Other	**(1)**	**5**	**1**	**–**
	(2)	**24**	**2**	**62**

(i) Planned decommissioning work postponed due to project deferrals.

22. Post-retirement benefits

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.

(a) Summary of main post-retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2020	Total membership as at 31 December 2020
Centrica Engineers	Defined benefit final salary pension	Closed to new members in 2006	UK	**2,416**	**8,429**
Pension Scheme	Defined benefit career average pension	Open to service engineers only	UK	**2,959**	**5,552**
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	**1,775**	**8,368**
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	**2**	**10,356**
	Defined benefit career average pension	Closed to new members in 2008	UK	**866**	**4,050**
	Defined contribution pension	Open to new members	UK	**10,318**	**18,504**
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	**121**	**172**
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	**244**	**329**
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	**6**	**361**
Direct Energy Marketing Limited	Post-retirement benefits	Closed to new members in 2012	Canada	**10**	**254**

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions, which together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations were carried out at the following dates: the Registered Pension Schemes at 31 March 2018, the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2020 and the Direct Energy Marketing Limited Pension Plan at 1 January 2018. These have been updated to 31 December 2020 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine directors: three independent directors, three directors appointed by Centrica plc (including the Chairman) and one director appointed by each of the three Registered Pension Schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2018 valuation.

22. Post-retirement benefits

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the risk tolerances (which were updated in 2019) that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc)), and only took on past service liabilities in respect of active employees. The trustees significantly reduced their risk tolerance in 2019, increasing inflation and interest rate hedges from one third to two thirds. This has resulted in a significant reduction of return-seeking assets within the portfolio, as well as a higher weighting to assets that better manage downside risk.

Interest rate

A decrease in bond interest rates will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk. The trustees took further action to reduce this risk in 2020.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Therefore, scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. Furthermore, a pension increase exchange (PIE) option implemented in 2015 is available to future retirees, which gives the choice to receive a higher initial pension in return for giving up certain future increases linked to RPI, again limiting the impact of significant movements in inflation.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented, and in 2019 a similar change took place for CEPS. All of the 2011, 2016 and 2019 changes result in a reduction in salary risk.

Foreign exchange

Certain assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging policies in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2020.

Total liabilities of the Registered Pension Schemes 31 December	**2020** %
Actives – final salary – capped	**18**
Actives – final salary – uncapped and crystallised benefits	**4**
Actives – career average	**6**
Deferred pensioners	**33**
Pensioners	**39**
	100

22. Post-retirement benefits

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are given below:

Major assumptions used for the actuarial valuation 31 December	**2020** **%**	2019 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.6**	1.6
Other not subject to cap	**2.2**	2.1
Rate of increase in pensions in payment	**2.8**	2.9
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.0**	1.9
In line with RPI	**2.8**	2.9
Discount rate	**1.5**	2.2

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The impact of COVID-19 has not been factored into the mortality assumptions, as the future impact is not yet reliably known. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member	**2020**		2019	
31 December	**Male** **Years**	**Female** **Years**	Male Years	Female Years
Currently aged 65	**22.6**	**24.0**	22.6	24.1
Currently aged 45	**24.0**	**25.2**	23.9	25.6

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

For the Registered Pension Schemes, marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions	**2020**		2019	
31 December	**Increase/ decrease in assumption**	**Indicative effect on scheme liabilities** **%**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/-0**	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-4**	0.25%	+/-5
Discount rate	**0.25%**	**-/+6**	0.25%	-/+6
Inflation assumption	**0.25%**	**+/-5**	0.25%	+/-5
Longevity assumption	**1 year**	**+/-4**	1 year	+/-3

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Group Balance Sheet

31 December	**2020** **£m**	2019 £m
Fair value of plan assets	**10,070**	8,999
Present value of defined benefit obligation	**(10,671)**	(9,162)
Net liability recognised in the Group Balance Sheet	**(601)**	(163)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**–**	56
Retirement benefit liabilities	**(601)**	(219)

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the consolidated Financial Statements.

22. Post-retirement benefits

(e) Movements in the year

	2020		2019	
	Pension liabilities £m	**Pension assets £m**	Pension liabilities £m	Pension assets £m
1 January	**(9,162)**	**8,999**	(8,566)	8,487
Items included in the Group Income Statement:				
Current service cost	**(79)**	**–**	(87)	–
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**(28)**	**–**	(29)	–
Total current service cost	**(107)**	**–**	(116)	–
Past service credit (ii)	**–**	**–**	260	–
Interest (expense)/income	**(197)**	**197**	(242)	241
Termination benefit	**(120)**	**–**	–	–
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**936**	–	204
Actuarial gain from changes to demographic assumptions	**55**	**–**	229	–
Actuarial loss from changes in financial assumptions	**(1,434)**	**–**	(1,286)	–
Actuarial (loss)/gain from experience adjustments	**(58)**	**–**	388	–
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**241**	–	320
Contributions by employer in respect of employee salary sacrifice arrangements	**–**	**28**	–	29
Other movements:				
Benefits paid from schemes	**286**	**(286)**	285	(285)
Other	**(3)**	**3**	(3)	3
Transfers from provisions for other liabilities and charges	**–**	**–**	(111)	–
Transferred to held for sale	**69**	**(48)**	–	–
31 December	**(10,671)**	**10,070**	(9,162)	8,999

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions and included within the current service cost, with a corresponding reduction in salary costs.

(ii) A £252 million past service credit was recognised in the prior year in relation to a rule amendment during December 2019 to the UK defined benefit pension scheme arrangements to offer members an option to level up their ongoing pension, if they retire before the statutory retirement age, and an £8 million past service credit was recognised in relation to changes made to future service benefits from June 2019.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £64 million (2019: £75 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £20 million (2019: £20 million) paid via a salary sacrifice arrangement.

22. Post-retirement benefits

(f) Pension scheme assets

The market values of plan assets were:

31 December	2020 Quoted £m	2020 Unquoted £m	2020 Total £m	2019 Quoted £m	2019 Unquoted £m	2019 Total £m
Equities	**19**	**396**	**415**	188	346	534
Corporate bonds	**2,649**	**–**	**2,649**	2,646	–	2,646
High-yield debt	**2,069**	**1,286**	**3,355**	1,015	1,288	2,303
Liability matching assets	**2,192**	**1,069**	**3,261**	1,430	1,075	2,505
Property	**–**	**352**	**352**	–	316	316
Cash pending investment	**38**	**–**	**38**	695	–	695
	6,967	**3,103**	**10,070**	5,974	3,025	8,999

Unquoted assets are valued by the fund managers with reference to the expected cash flows associated with the assets. These valuations are reviewed annually as part of the CCCIF audit. Included within equities are £nil of ordinary shares of Centrica plc (2019: £nil) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £nil (2019: £nil) of bonds issued by Centrica plc, albeit minor exposure may be held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships which form part of the asset-backed contribution arrangements described in section (g) of this note, no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

Included within the Group Balance Sheet within non-current securities are £108 million (2019: £103 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £66 million (2019: £62 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 66 to 75.

Estimation uncertainty (Asset valuation)

Within the plan asset portfolio, the proportion of unquoted assets remains broadly unchanged from last year. Within these assets, private equity and property have always exhibited the most valuation uncertainty, but they remain under 10% of the portfolio at 31 December 2020. A 10% reduction in the value of private equity and property assets would result in a £75 million reduction in the fair value of plan assets. Given the impact of COVID-19 versus more normal market conditions, there is potentially a greater level of uncertainty around these valuations. These asset values have been updated based on the latest asset manager views and other benchmarks where relevant, but no further adjustments have been deemed necessary.

(g) Pension scheme contributions

The Group estimates that it will pay £54 million of ordinary employer contributions during 2021 for its defined benefit schemes, at an average rate of 19% of pensionable pay, together with £27 million of contributions paid via a salary sacrifice arrangement. At 31 March 2018 (the date of the latest full agreed actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 22 years.

For the Registered Pension Schemes the latest actuarial valuation agreed with the Pension Trustees was as at 31 March 2018. The technical provisions deficit (funding basis) at that time was £1,402 million. The Group committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, totalled £235 million in 2019 (including £12 million of pension strain payments), £175 million in 2020 and will amount to £175 million per annum from 2021 to 2025, with a balancing payment of £93 million in 2026. As part of this agreement, a deferral arrangement was also agreed for pension strain liabilities resulting from redundancies made between 1 July 2019 and 30 June 2021, up to a limit of £240 million. A security package over the Group's equity shareholding in the Direct Energy business, enforceable in the unlikely event the Group was unable to meet its obligations, was also provided and amounted to £1,235 million.

In January 2021, as part of the Direct Energy disposal, this security package was released by the Pension Trustees. In exchange, the Group provided replacement security of £745 million of letters of credit and £250 million cash in escrow. The pension strain liability deferral arrangement was cancelled, resulting in a payment of £115 million to the Schemes in January 2021, with further amounts expected later in the year as other redundancies are finalised.

On a pure roll-forward basis, from 31 March 2018, using the same methodology and consequent assumptions, the technical provisions deficit (funding basis) would be c.£1.9 billion at the reporting date. Note that the next triennial review is scheduled for 31 March 2021, and the valuation methodology and assumptions may differ from those previously used.

23. Leases, commitments and contingencies

(a) Commitments and leases

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group's commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts where there is a right of offset with the counterparty, and are based on the expected minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note S3, as only certain procurement and sales contracts are within the scope of IFRS 9 and included in note S3 and the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

The Group's 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US commits the Group to capacity payments of £3.7 billion (included in 'LNG capacity' below) between 2021 and 2039. It also allows the Group to make up to £4.8 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date.

During 2019, the Group signed a 20-year agreement to purchase LNG volumes from Mozambique LNG1 Company. The commercial start date is 2025 and under this agreement the Group is committed to make commodity purchases expected to amount to £6.6 billion based on market gas and oil prices at the reporting date.

31 December	**2020 (i) £m**	2019 £m
Commitments in relation to the acquisition of PP&E	**146**	299
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates	**3,624**	3,756
Other intangible assets	**827**	762
Other commitments:		
Commodity purchase contracts	**34,819**	46,411
LNG capacity	**4,086**	4,282
Transportation capacity	**1,093**	1,117
Other long-term commitments (ii)	**600**	747

(i) Of the commitments at 31 December 2020 £5,649 million relates to discontinued operations, predominantly from commodity purchase contracts.
(ii) Other long-term commitments include amounts in respect of executory contracts, power station tolling fees and the smart meter roll-out programme.

The maturity analysis for commodity purchase contract commitments at 31 December is given below:

	Commodity purchase contract commitments			
	Fixed price commodity commitments		Commodity commitments that float with indices	
31 December	**2020 £billion**	2019 £billion	**2020 £billion**	2019 £billion
<1 year	**5.2**	6.8	**4.4**	4.5
1–2 years	**1.8**	2.3	**3.3**	3.9
2–3 years	**0.6**	0.7	**3.0**	3.4
3–4 years	**0.2**	0.3	**2.5**	3.4
4–5 years	**0.1**	0.1	**2.1**	3.1
>5 years	**0.4**	0.2	**11.2**	17.7
	8.3	10.4	**26.5**	36.0

23. Leases, commitments and contingencies

The Group enters into lease arrangements for assets including property, vehicles, vessels and assets used within the exploration and production business.

The carrying amount, additions and depreciation charge associated with right-of-use assets is disclosed in note 13 and the interest expense arising on the Group's lease liability is disclosed in note 8. The total Group cash outflow in the year for capital and interest from lease arrangements was £195 million, and the maturity analysis of cash flows associated with the Group's lease liability at the reporting date is shown in note S3.

The table below provides further information on amounts not included in the lease liability and charged to the Group Income Statement during the year.

Year ended 31 December	**2020 £m**	2019 £m
Expense related to short-term leases	**47**	47
Expense related to variable lease payments	**32**	23

During the year, the Group's expense related to short-term lease commitments predominantly related to the hire of LNG vessels and exploration and production drilling rigs. The commitment at the balance sheet date also relates to assets of a similar nature. The Group does not have any material sub-lease or sale and leaseback arrangements. The Group does not have any material arrangements in which it acts as a lessor.

The Group commenced the lease of two LNG vessels in April and July 2020. In each lease, the seven-year term excludes a six-year extension option for the Group because it is not reasonably certain that the option will be exercised. Similarly, the determination of the lease term does not reflect a termination option for the Group as it is reasonably certain that the option will not be exercised. Commencement of the leases gave rise to the recognition of right-of-use assets and lease liabilities of £206 million. The vessels are part of the operations of the Energy Marketing & Trading segment.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

As at 31 December 2020, £665 million (2019: £651 million) of letters of credit and on-demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet.

(c) Contingent liabilities

The Group has no material contingent liabilities.

24. Sources of finance

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of net debt and equity as shown in the table below:

31 December	2020 £m	2019 £m
Net debt	**2,769**	3,181
Shareholders' equity	**957**	1,212
Capital	**3,726**	4,393

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements, and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of at least three years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies.

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowings is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through commercial paper or short-term bank borrowings. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2020 (and 2019). BGIL's capital management policy and plan is subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

(b) Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern, and as at the reporting date, the analysis performed by the Group extends to 31 December 2022. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its gross debt (excluding non-recourse debt) in the capital market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2020 the Group had undrawn committed credit facilities of £3,637 million (2019: £3,072 million) and £1,139 million (2019: £619 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. A further £107 million of cash and cash equivalents is included in assets held for sale. 93% (2019: 91%) of the Group's gross debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.3 years (2019: 11.1 years). The completion of the disposal of the Direct Energy business on 5 January 2021 led to a cash receipt of $3.6 billion (£2.7 billion), significantly improving the Group's net debt position.

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these agreements depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to section (c) of this note for the movement in cash posted or received as collateral.

The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Governance section – Other Statutory Information, on page 86.

24. Sources of finance

(c) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

Presented in the derivatives and current and non-current borrowings, leases and interest accruals columns shown below are the assets and liabilities that give rise to financing cash flows.

	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Other assets and liabilities: Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Other assets and liabilities: Collateral posted/ (received) £m	Other assets and liabilities: Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt £m
1 January 2019 post-adoption of IFRS 16	(5,016)	233	(4,783)	1,128	290	307	8	(3,050)
Net cash inflow from sale and purchase of securities	–	–	–	50	–	(51)	–	(1)
Cash outflow for payment of capital element of leases	155	–	155	(155)	–	–	–	–
Cash outflow for repayment of borrowings	86	–	86	(86)	–	–	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements	–	–	–	104	46	–	(3)	147
Revaluation	(57)	11	(46)	–	–	6	–	(40)
Financing interest paid	220	(10)	210	(243)	–	–	–	(33)
Increase in interest payable and amortisation of borrowings	(229)	–	(229)	–	–	–	–	(229)
New lease agreements and re-measurement of existing lease liabilities	(47)	–	(47)	–	–	–	–	(47)
Business disposals and asset purchases	3	–	3	–	–	(6)	–	(3)
Exchange adjustments	90	–	90	(4)	(10)	(1)	–	75
31 December 2019	(4,795)	234	(4,561)	794	326	255	5	(3,181)
Cash inflow from settlement and purchase of securities	**–**	**–**	**–**	**121**	**–**	**(121)**	**–**	**–**
Cash outflow for payment of capital element of leases	**184**	**–**	**184**	**(184)**	**–**	**–**	**–**	**–**
Cash outflow for repayment of borrowings	**63**	**–**	**63**	**(63)**	**–**	**–**	**–**	**–**
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements	**–**	**–**	**–**	**963**	**(101)**	**–**	**(3)**	**859**
Revaluation	**(79)**	**132**	**53**	**–**	**–**	**5**	**–**	**58**
Financing interest paid	**213**	**(20)**	**193**	**(204)**	**–**	**–**	**–**	**(11)**
Increase in interest payable and amortisation of borrowings	**(218)**	**–**	**(218)**	**–**	**–**	**–**	**–**	**(218)**
New lease agreements and re-measurement of existing lease liabilities	**(239)**	**–**	**(239)**	**–**	**–**	**–**	**–**	**(239)**
Exchange adjustments	**(6)**	**–**	**(6)**	**(34)**	**4**	**(1)**	**–**	**(37)**
Group net debt at 31 December 2020	**(4,877)**	**346**	**(4,531)**	**1,393**	**229**	**138**	**2**	**(2,769)**
Less assets and liabilities held for sale (iv)	**35**	**–**	**35**	**(107)**	**(155)**	**(4)**	**–**	**(231)**
Net debt excluding disposal groups held for sale at 31 December 2020	**(4,842)**	**346**	**(4,496)**	**1,286**	**74**	**134**	**2**	**(3,000)**

(i) Cash and cash equivalents includes £147 million (2019: £175 million) of restricted cash. This includes cash totaling £11 million (2019: £48 million) within the Spirit Energy business that is not restricted by regulation but is managed by Spirit Energy's own treasury department.

(ii) Cash and cash equivalents are net of £534 million bank overdrafts (2019: £548 million).

(iii) Securities balances include £84 million (2019: £77 million) debt instruments and £50 million (2019: £54 million) equity instruments, all measured at fair value. Assets held for sale include £4 million of equity instruments measured at fair value. In the prior period securities balances also included £124 million index-linked gilts that the Group used for short-term liquidity management purposes.

(iv) Included in the 31 December 2020 closing balance is £231 million, relating to Direct Energy and presented within assets and liabilities held for sale.

24. Sources of finance

Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Collateral received or posted is included in the following lines of the Group Balance Sheet:

31 December	2020 £m	2019 £m
Collateral posted/(received) included within:		
Trade and other payables	**(68)**	(35)
Trade and other receivables	**56**	155
Net derivative liabilities	**86**	199
Inventories	**–**	7
Net collateral posted	**74**	326

(d) Borrowings, leases and interest accruals summary

			2020			2019		
31 December	Coupon rate %	Principal m	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts			**(534)**	**–**	**(534)**	(548)	–	(548)
Bank loans (> 5 year maturity)			**–**	**(144)**	**(144)**	–	(144)	(144)
Bonds (by maturity date):								
25 September 2020	Floating	US$80	**–**	**–**	**–**	(60)	–	(60)
22 February 2022	3.680	HK$450	**–**	**(42)**	**(42)**	–	(44)	(44)
10 March 2022 [(i)]	6.375	£246	**–**	**(253)**	**(253)**	–	(254)	(254)
16 October 2023 [(i)]	4.000	US$302	**–**	**(233)**	**(233)**	–	(234)	(234)
4 September 2026 [(i)]	6.400	£52	**–**	**(59)**	**(59)**	–	(57)	(57)
16 April 2027	5.900	US$70	**–**	**(51)**	**(51)**	–	(52)	(52)
13 March 2029 [(i)]	4.375	£552	**–**	**(604)**	**(604)**	–	(574)	(574)
5 January 2032 [(ii)]	Zero	€50	**–**	**(65)**	**(65)**	–	(59)	(59)
19 September 2033 [(i)]	7.000	£770	**–**	**(823)**	**(823)**	–	(790)	(790)
16 October 2043	5.375	US$367	**–**	**(264)**	**(264)**	–	(272)	(272)
12 September 2044	4.250	£550	**–**	**(538)**	**(538)**	–	(538)	(538)
25 September 2045	5.250	US$50	**–**	**(36)**	**(36)**	–	(37)	(37)
10 April 2075 [(i)(iii)]	5.250	£450	**–**	**(472)**	**(472)**	–	(460)	(460)
10 April 2076 [(iv)]	3.000	€750	**–**	**(671)**	**(671)**	–	(634)	(634)
			–	**(4,111)**	**(4,111)**	(60)	(4,005)	(4,065)
Obligations under lease arrangements			**(171)**	**(334)**	**(505)**	(166)	(337)	(503)
Interest accruals			**(82)**	**–**	**(82)**	(83)	–	(83)
			(787)	**(4,589)**	**(5,376)**	(857)	(4,486)	(5,343)

(i) Bonds or portions of bonds maturing in 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedge relationship. See note S5 for details of hedge relationships.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought, principally as part of share repurchase programmes.

Allotted and fully paid share capital of the Company 31 December	2020 £m	2019 £m
5,842,518,658 ordinary shares of 6$^{14}/_{81}$ pence each (2019: 5,829,597,044)	**361**	360

During the year 13 million ordinary shares were issued at an average original purchase price of 135.5 pence for employee share awards. In 2019 102 million ordinary shares were issued at an average price of 94.4 pence for scrip dividends, amounting to a total value of £96 million.

The closing price of one Centrica ordinary share on 31 December 2020 was 46.6 pence (2019: 89.3 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares (i)		Treasury shares (i) (ii)	
	2020 million shares	2019 million shares	**2020 million shares**	2019 million shares
1 January	**3.7**	5.8	**10.2**	31.3
Shares purchased	**60.7**	1.6	**–**	–
Treasury shares placed into trust	**1.0**	1.0	**(1.0)**	(1.0)
Shares released to employees on vesting (ii)	**(5.8)**	(4.7)	**(9.2)**	(20.1)
31 December (i)	**59.6**	3.7	**–**	10.2

(i) The closing balance in the treasury and own share reserve of own shares was £31 million (2019: £5 million) and treasury shares was £nil (2019: £32 million).
(ii) Includes shares purchased by employees under share purchase schemes for a value of £1 million.

26. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2020 and the date of this report.

Sale of Direct Energy

On 5 January 2021, Centrica completed the sale of its North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc for $3.6 billion (£2.7 billion). This is expected to lead to a profit on disposal of c. £0.6 billion.

Immediately prior to the disposal, the Pension Trustees for the UK Registered Pensions Schemes released the security they held over the shares in the Direct Energy business. In exchange, the Group provided replacement security of £745 million of letters of credit and £250 million cash in escrow.

Supplementary information

Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 1 to 42.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. Summary of significant accounting policies

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. Unless otherwise stated, these accounting policies have been consistently applied to the years presented.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3, and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee (which is the Group's Chief Operating Decision Maker as defined by IFRS 8: 'Operating segments') for the purposes of evaluating segment performance and allocating resources.

The Group redefined its operating segments during the year, to reflect the way the business is now organised. Information relating to the prior year has been represented in line with the new segmental structure.

Revenue

Energy supply to business and residential customers

The vast majority of contractual energy supply arrangements have no fixed duration, require no minimum consumption by the customer and can be terminated by either party at any time. No enforceable rights and obligations exist at inception of the contract and arise only once the cooling off period is complete and the Group is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised. In respect of energy supply contracts, the Group considers that it has the right to consideration from the customer for an amount that corresponds directly with the invoiced value delivered to the customer through their consumption. The Group's assessment of the amount that it has a right to invoice includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue and is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

The Group holds a number of energy supply contracts that specify a minimum consumption volume over a specified contractual term. The transaction price for these contracts is the minimum supply volume multiplied by the contractually agreed price per unit of energy. Revenue from the sale of additional volumes is considered to be variable and not included in the transaction price. Revenue for these contracts continues to be recognised as invoiced.

In making disclosures under IFRS 15, the Group applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligations within energy supply contracts in accordance with Paragraph B16.

S2. Summary of significant accounting policies

Energy services provided to business and residential customers

Energy services relate to the installation, repair and maintenance of central heating, ventilation and air conditioning systems.

In the UK, delivery of an item is considered a separate performance obligation to the installation of the item, both satisfied at a point in time. Delivery is the point at which control passes to the customer as the customer takes physical possession of the asset. It is also the point at which the Group has the right to consideration. Delivery and installation usually occur at the same point in time and consequently revenue is recognised for both performance obligations simultaneously.

Certain heating, ventilation and air conditioning (HVAC) system installations in North America are considered to be a single performance obligation satisfied over time, representing the Group's promise to deliver to the customer a functioning HVAC system. Revenue is recognised on an input basis with reference to costs incurred.

Sales of LNG

Revenue arising from sales of LNG is recognised when control of the commodity passes to the counterparty, with each cargo representing a separate performance obligation satisfied at a point in time.

Sales of own gas and liquid production

Revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply contracts with the revenue recognition profile reflecting the supply of gas to the customer. In respect of oil sales, each barrel of oil is considered a separate performance obligation satisfied at a point in time – on delivery.

The rights and obligations identifiable within a contract where the Group holds sellers' nomination rights are considered to be enforceable from inception of the contract. The transaction price for the contract will include variable consideration based on forecast production and market prices. The point at which the performance obligation is satisfied and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms, usually on shipment or delivery to a specified location.

Revenue arising from contracts outside the scope of IFRS 15

Revenue from sources other than the Group's contracts with customers is recognised in accordance with the relevant standard, as detailed below:

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Power generation: revenue is recognised on the basis of power supplied during the year.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year for own-use contracts, taking into account the industry reconciliation process for total gas and total electricity usage by supplier and related transportation, distribution, royalty costs and bought-in materials and services.

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

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

Re-measurement and settlement of energy contracts

Re-measurement and settlement of energy contracts includes both realised (settled) commodity sales and purchase contracts in the scope of IFRS 9, as well as unrealised (fair value changes) on active contracts, as detailed further in note 2.

Financing costs

Financing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Supplementary information continued

S2. Summary of significant accounting policies

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency of the relevant entity at the rate of exchange ruling at the balance sheet date and exchange movements included in the Group Income Statement for the period.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the dates of the initial transaction.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, joint ventures and associates are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The monthly results of these (generally foreign) subsidiary undertakings, joint ventures and associates are translated into pounds sterling each month at the average rates of exchange for that month. The closing exchange rates, and the average of the rates used to translate the results of foreign operations to pounds sterling are shown below.

	Closing rate at 31 December		Average rate for the year ended 31 December	
Exchange rate per pound sterling (£)	**2020**	2019	**2020**	2019
US dollars	**1.37**	1.33	**1.29**	1.28
Canadian dollars	**1.74**	1.72	**1.73**	1.69
Euro	**1.12**	1.18	**1.13**	1.14
Norwegian krone	**11.72**	11.65	**12.13**	11.25
Danish krone	**8.31**	8.83	**8.42**	8.52

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in other comprehensive income. In the event of the disposal of a non-sterling functional currency subsidiary, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal. Where the Group utilises net investment hedging, changes in the fair value of the hedging instrument are recognised in equity and remain there until the disposal of the specific, related investments, at which point the gains and losses are recycled to profit or loss. The Group previously employed net investment hedging but ceased in 2009, with historic hedging gains and losses remaining in equity until the disposal of the related investment. During 2020 the Group recommenced net investment hedging in respect of the US dollar functional currency subsidiaries in its Direct Energy business.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 66 to 75, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

The majority of the share-based payment charge arises from the On Track Incentive Plan. This scheme is applicable to senior executives, and senior and middle management. Shares issued under the scheme vest subject to continued employment within the Group in two stages (half after two years and the other half after three years). Employees leaving prior to the vesting date will normally forfeit their rights to unvested share awards. The fair value of the awards is measured using the market value at the date of grant.

More information is included in the Remuneration Report on pages 66 to 75.

S2. Summary of significant accounting policies

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. The Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interests and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is not recognised separately, but is shown under 'Interests in joint ventures and associates' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

Acquisitions of joint operations that meet the definition of a business as defined in IFRS 3 are accounted for as business combinations.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress and ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful lives and are tested for impairment, as part of the CGU to which they relate where necessary, annually and whenever there is an indication that the asset could be impaired. The amortisation period and method for an intangible asset are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. The indefinite life assessment is reviewed annually and, if not supportable, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The useful economic lives for the principal categories of intangible assets are as follows:

Customer relationships and other contractual assets	Up to 20 years
Strategic identifiable acquired brands	Indefinite
Application software	Up to 15 years

Strategic identifiable acquired brands are deemed to have indefinite lives where evidence suggests that the brand will generate net cash inflows for the Group for an indefinite period.

Supplementary information continued

S2. Summary of significant accounting policies

EU Emissions Trading Scheme and renewable obligation certificates

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

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

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

The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received. Cash flows relating to renewable obligation certificates and similar North America schemes are recognised within cash flows from operating activities.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditures associated with an exploration well, including acquisition costs related to exploration and evaluation activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure is transferred to PP&E. If the prospects are subsequently determined to be unsuccessful, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared annually on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

The Group's joint ventures and associates (as defined in note 6) are accounted for using the equity method.

The Group's interests in joint operations (gas and oil exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the gas and oil fields that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not as principal (as the contracts entered into presents gross liabilities and gross receivables of joint operations (including amounts due to or from non-operating partners) in the Group Balance Sheet in accordance with the netting rules of IAS 32: 'Financial instruments – presentation'.

Property, plant and equipment

PP&E is included in the Group Balance Sheet at cost, less accumulated depreciation and any provisions for impairment.

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 is expensed as incurred.

S2. Summary of significant accounting policies

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), 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. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	Five to 20 years
Equipment and vehicles	Three to 10 years
Power generation assets	Up to 30 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.

Impairment assumptions

The Group tests the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets) for impairment at least annually. Interests in joint ventures and associates and exploration assets are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Further information on the assumptions used in the VIU calculations and FVLCD calculations that resulted in impairment or impairment reversals during the year can be found at note 7.

VIU – Key assumptions used

Pre-tax cash flows used in the VIU calculations are derived from the Group's Board-approved business plans, and assumptions specific to the nature and life of the asset. The Group's business plans and assumptions are based on past experience and adjusted to reflect market trends, economic conditions and key risks. Commodity prices used in the planning process are based in part on observable market data and in part on estimates. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(a) VIU – Growth rates and discount rates

Unless stated otherwise in the table below, cash flows beyond the planned period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are shown below.

2020	**British Gas %**	**Centrica Business Solutions Energy Supply %**	**Bord Gáis Energy %**	**North America Home (i) %**	**North America Business (i) %**	**Centrica Home Solutions %**	**Centrica Business Solutions (turbines/engines/ battery) (ii) %**	**Energy Marketing & Trading %**	**Nuclear (ii) %**
Growth rate to perpetuity (including inflation)	**1.4**	**1.4**	**0.8**	**N/A**	**N/A**	**1.4**	**N/A**	**1.4**	**N/A**
Pre-tax discount rate	**7.4**	**7.4**	**6.9**	**N/A**	**N/A**	**11.1**	**8.0**	**8.6**	**8.0**

2019	British Gas %	Centrica Business Solutions Energy Supply %	Bord Gáis Energy %	North America Home (iii) %	North America Business (iii) %	Centrica Home Solutions (iii) %	Centrica Business Solutions (turbines/engines/ battery) (ii) %	Energy Marketing & Trading %	Nuclear (ii) %
Growth rate to perpetuity (including inflation)	2.0	2.0	1.2	2.1/2.0	2.1/2.0	2.0	N/A	2.0	N/A
Pre-tax discount rate	7.8	7.8	7.4	8.7	9.0	10.8	9.0	8.4	8.4

(i) In 2020, the impairment review for Direct Energy (North America Business and North America Home) has been performed using the FVLCD methodology, based on the agreed sales consideration for the business. No impairment was required.

(ii) Cash flows arising after the plan period have been derived from forecasts to the end of the asset lives. Due to the nature of these finite-lived assets this provides a more appropriate valuation in later years.

(iii) US/Canada respectively.

Financial Statements

Supplementary information continued

S2. Summary of significant accounting policies

(b) VIU – Inflation rates

Inflation rates used in the business plan were based on a blend of publicly available inflation forecasts and range from 0.8% to 1.4%.

(c) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are gross margin, revenues and operating costs. These assumptions are tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
All – base assumptions	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and cost of goods inflation. For the Services business, future sales and related gross margins are based on planned future product sales and contract losses based upon past performance and future expectations of the competitive environment.	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. Adjusted for: growth forecasts which are based on sales and marketing activity, recent customer acquisitions and the current economic environment in the relevant geography. Gas and electricity revenues based on forward market prices. Market share: percentage immediately prior to business plan.	Wages: projected headcount in line with expected efficiency programme. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding realised cash losses have been updated to reflect the current environment.
Energy Marketing & Trading	Existing and new markets: management's estimate of future trading performance.	As above.	Future development: increase in costs to support growth forecasts, adjusted for planned business process efficiencies.
Centrica Business Solutions (turbines/ engines/battery)	Based on forecast revenues, operations and maintenance costs, grid network and balancing system charges for the asset life.	Based on forward and contracted prices for commodity, capacity market and grid ancillary service contracts for the asset life.	Based on run-rate and forecast changes, including expected inflation for the asset life.

Overlift and underlift

Off-take arrangements for gas and oil produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables or trade and other receivables respectively, and is measured at market value, with movements in the period recognised within cost of sales.

S2. Summary of significant accounting policies

Leases

The Group assesses its contractual arrangements to determine whether they are or contain leases based on whether they convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The liabilities for the majority of the Group's lease portfolio are calculated using the incremental borrowing rate. This rate is calculated on a lease-by-lease basis, taking into account the credit rating of the Group at the inception of the lease and the lease term. The credit adjustment used in this calculation is modified to reflect the security implicit in a lease arrangement based on the specific class of asset being leased.

Lease payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early. When considering whether the Group is reasonably certain to exercise extension or termination options, various factors are considered, such as the level of lease payments relative to the market rate, the importance of the specific asset to the Group's operations and the period remaining until the option becomes exercisable. Such judgements are reconsidered when there is a significant event or change of circumstances that is within the control of the Group. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, lease-term extension or termination option. Cash flows reflecting payment of capital and interest on leases are shown in cash flows from financing activities.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use of asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group recognises the lease payments associated with short-term leases (leases expiring within twelve months from commencement) and leases of low value assets (underlying asset value less than £5,000) on a straight-line basis over the lease term.

The Group holds interests in a number of joint operations within its exploration and production business. The Group has applied judgement in identifying the customer where a lease arrangement is to be used by a jointly controlled operation.

If the leased asset is dedicated to a specific joint operation and its usage is dictated by the joint operating agreement, the joint operation is deemed the customer. In such instances:

- When the Group signs a lease agreement on behalf of a joint operation and has primary responsibility for payments to the lessor, the Group recognises 100% of the lease liability and a right-of-use asset on its balance sheet. When the partner is obliged to reimburse the Group for its share of lease payments, a sub-lease receivable is recognised and an equal adjustment to the right-of-use asset is made.
- When the partner has the primary responsibility for payments to the lessor and the Group is obliged to reimburse its share of the lease payments, a lease liability due to the partner and equal right-of-use asset are recognised.

If the leased asset is not dedicated to a specific joint operation or its usage is not dictated by the joint operating agreement of a joint operation to which it is dedicated, the signatory to the lease agreement is deemed the customer. If this is the Group, the lease liability and right-of-use asset are recognised in full. If it is the partner, no lease liability or right-of-use asset is recognised.

Supplementary information continued

S2. Summary of significant accounting policies

Inventories

Inventories of finished goods are valued at the lower of cost (using weighted-average cost) or estimated net realisable value after allowance for redundant and slow-moving items. The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Inventory of gas in storage is valued either on a weighted-average cost basis or at fair value less any costs to sell depending on the business model for holding the inventory. Changes in fair value less costs to sell are recognised in the Group Income Statement.

Oil inventory is measured at fair value, being the spot price at the balance sheet date.

Decommissioning costs

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

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. The asset is subject to impairment review as detailed above. Changes in estimates and discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The discount rate used to calculate the provision was reduced from 1.2% to 0% in 2020 as discussed in note 3. The unwinding of the discount on the provision is included in the Group Income Statement within financing costs.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and the Directors are committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post-employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in other comprehensive income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time, is recognised in the Group Income Statement within net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are recognised in the Group Income Statement as they fall due.

S2. Summary of significant accounting policies

Provisions

Provisions are recognised when the Group 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 Group will be required to settle that obligation. Provisions 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 Group 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. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice as well as the rules and regulations of the relevant tax authority in the jurisdiction of the dispute. Often the Group is unable to predict whether an uncertain tax treatment will be accepted by the relevant authority. In such instances the effects of uncertainty are reflected in management's assessment of the most likely outcome of each issue, as reviewed and updated on a regular basis. Each item is considered separately and on a basis that provides the better prediction of the outcome, unless the Group determines that it is appropriate to group certain items for consideration. See note 9 for further details on uncertain tax provisions.

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

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

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

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

Supplementary information continued

S2. Summary of significant accounting policies

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade 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 (taking into account the Group's business model, which is to collect the contractual cash flows owing) less an allowance for impairment losses. 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.

(b) Trade 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.

(c) Share capital
Ordinary shares are classified as equity. 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 reacquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions and money market deposits, 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. Cash and cash equivalents are presented net of outstanding bank overdrafts where there is a legal right of set off and, for the Group's cash pooling arrangements, to the extent the Group expects to settle its subsidiaries' year-end account balances on a net basis.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings
All interest-bearing loans and other borrowings with banks and similar institutions are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are hedged items 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 Group Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Financial instruments at fair value through other comprehensive income
Financial assets at fair value through other comprehensive income are equity instruments that the Group has elected to recognise the changes in fair value of in other comprehensive income. They are recognised initially at fair value in the Group Balance Sheet and are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in other comprehensive income. Accrued interest or dividends arising on these financial assets are recognised in the Group Income Statement.

If the Group assesses the need to recognise a loss allowance on a financial asset carried at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income; however, the recognition of a loss allowance does not impact the carrying value of the asset on the Group's Balance Sheet.

Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the Group Income Statement.

(g) Financial assets at fair value through profit or loss
The Group previously held investments in gilts which it designated at fair value through profit or loss in order to eliminate asymmetry arising from the measurement of an index-linked derivative. These gilts matured during 2020. Other debt instruments and money market funds (which are classified as cash equivalents) are required to be measured at fair value through profit or loss under IFRS 9, as the assets are not held solely for the purpose of collecting contractual cash flows related to principal and interest. Both mandatory and designated instruments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within investment income or financing costs.

S2. Summary of significant accounting policies

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IFRS 9. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rates, foreign exchange and energy price risks, arising in the normal course of business. Where considered appropriate, the Group may use weather derivatives to protect against earnings volatility arising from unseasonal weather variations. The use of such derivatives did not have a material financial statement impact in 2020 or 2019. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 34 to 39 and in note S3.

The accounting treatment of derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines. Certain derivative instruments used for hedging purposes are designated in hedge accounting relationships as described by IAS 39 (the Group has not applied the hedge accounting requirements of IFRS 9). In order to qualify for hedge accounting, the effectiveness of the hedge must be reliably measurable and documentation describing the formal hedging relationship must be prepared at the point of designation. The hedge must be highly effective in achieving its objective. The Group also holds derivatives that are used for hedging purposes which are not designated in hedge accounting relationships and are held for trading.

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

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

Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for cash flow or net investment hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Group Income Statement and are included within gross profit or investment income and financing costs. Where derivatives qualify for cash flow or net investment hedging, changes in fair value arising from the effective element of the hedge are recognised initially in the Group Statement of Comprehensive Income and are recycled to the Group Income Statement when the hedged item impacts profit or loss. Further details on the treatment of energy derivatives in the Group Income Statement is provided in note 2. Further detail on the treatment of derivatives in hedging relationships is provided in note S5.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract that significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement. Gains and losses arising from changes in the fair value of energy derivative contracts are recognised within Re-measurement and settlement of energy contracts in the Group's Results for the period under IFRS.

Supplementary information continued

S2. Summary of significant accounting policies

(i) Hedge accounting

The Group continues to apply the hedge accounting requirements of IAS 39 and has not adopted IFRS 9 hedge accounting.

For the purposes of hedge accounting, hedges are classified as either net investment hedges, fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

(j) Impairment of financial assets

In accordance with IFRS 9, the Group has applied the expected credit loss model to financial assets measured at amortised cost and fair value through other comprehensive income.

For trade receivables and contract assets the simplified approach is taken and the lifetime expected credit loss provided for.

For all other in-scope financial assets at the balance sheet date either the lifetime expected credit loss or a 12-month expected credit loss is provided for, depending on the Group's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition. As the Group's financial assets are predominantly short term (less than 12 months), the impairment loss recognised is not materially different using either approach. Further details of the assumptions and inputs used to calculate expected credit losses are shown in note 17.

Nuclear activity

The Group's investment in Lake Acquisitions Limited ('Nuclear') is accounted for as an associate. The following accounting policies are specific to this nuclear activity.

(a) Fuel costs – nuclear front end

Front-end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services, and fuel element fabrication. All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced gas-cooled reactors (AGR)

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back-end fuel costs comprise of a loading-related cost per tonne of uranium and a rebate/surcharge to this cost which is dependent on the out-turn market electricity price and the amount of electricity generated from AGR stations in the year. These costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised water reactor (PWR)

Back-end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back-end fuel costs are capitalised into inventory on loading and are charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear PP&E – depreciation

The majority of the cost of the nuclear fleet is depreciated from the date of the Group acquiring its share of the fleet on a straight-line basis, with remaining depreciable periods currently of up to 15 years.

Other expenditure including amounts spent on major inspections and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is 2 to 3 years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, the former British Energy Group agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables

The UK Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back-end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities (apart from a small timing difference due to timing of receipts from NLF).

(f) Nuclear liabilities

Nuclear liabilities represent provision for liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown

Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are fully provided for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long-term liability.

S3. Financial risk management

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

Further detail on the Group's overall risk management processes is included within the Strategic Report – Principal Risks and Uncertainties on pages 34 to 39.

Commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes.

Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy. Downstream customer credit risk management is carried out in accordance with appropriate group wide and individual business unit credit policies.

Market risk management

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

(a) Commodity price risk management

The Group is exposed to commodity price risk in its energy procurement and supply activities, production, generation and trading operations and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. The Group uses Profit at Risk (PaR) limits to control exposures to market prices. These are complemented by other limits including Value at Risk (VaR), volumetric or stop-loss limits to control risk around trading activities.

(i) Energy price exposed business activities

The Group's price exposed business activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions primarily transacted with the intent of securing gas and power for the Group's supply customers, from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group's commodity price risk exposure within its business activities is driven by the cost of procuring gas and electricity to serve its supply customers and selling gas, oil and electricity from its upstream production and generation, which varies with wholesale commodity prices. The primary risk is that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group's supply activities are also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including the weather, energy consumption changes, customer attrition and the economic climate. There is also risk associated with ensuring that there is sufficient commodity available to secure supply to customers. The Group's production and generation activities are also exposed to volumetric risk in the form of uncertain production profiles.

In order to manage the exposure to market prices associated with the Group's business operations the Group uses a specific set of risk limits (including VaR and PaR) established by the Board, and sub-delegated downwards through the delegation lines to the commercial leaders.

PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, regular stress and scenario tests are performed to evaluate the impact on the portfolio of possible substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy price exposed business portfolio. Only certain of the Group's energy contracts constitute financial instruments under IFRS 9 (see note S6).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement and sales contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy price exposed business activities to commodity price risk according to IFRS 7: 'Financial instruments: disclosures'. This is because energy contracts that are financial instruments under IFRS 9 are accounted for on a fair value basis and changes in fair value immediately impact profit. Conversely, energy contracts that are not financial instruments under IFRS 9 are accounted for as executory contracts and changes in fair value do not immediately impact profit and, as such, are not exposed to commodity price risk as defined by IFRS 7. So, whilst the PaR or VaR associated with energy procurement and supply contracts that are outside the scope of IFRS 9 are monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of the IFRS 7 disclosure requirements.

Supplementary information continued

S3. Financial risk management

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2020 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation. VaR assumes that historical price behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure). IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes items that are not financial instruments, such as the Group's net investments in international operations as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The primary functional currencies remain pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian krone in Norway, Danish krone in Denmark and euros in the Netherlands and the Republic of Ireland. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement, production and generation activities, where many transactions are denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt or entered into foreign currency loans, primarily in US dollars, euros and Japanese yen.

It is the Group's policy to hedge material transactional exposures using derivatives (either applying formal hedge accounting or economic hedge relationships) to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2020, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2019: £nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pound sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where appropriate, subject to certain parameters, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset carrying values in the Group's Financial Statements. The translation hedging programme including the potential cash impact is managed by the Group Treasury function and monitored by the Chief Financial Officer.

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed-rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

The return generated on the Group's cash balance is also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

(d) Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2020, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2020, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

S3. Financial risk management

The sensitivity analysis has been prepared based on 31 December 2020 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2020 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IFRS 9. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced. This is because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

(i) Transactional currency risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in foreign exchange rates. The Group deems 10% movements to US dollar, Canadian dollar and euro currency rates relative to pounds sterling to be reasonably possible. The impact of such movements on profit and equity, both before and after taxation, is immaterial.

(ii) Interest rate risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK, US and euro interest rates to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial.

(iii) Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

	2020		2019	
Energy prices	**Base price (i)**	**Reasonably possible change in variable (ii) %**	Base price (i)	Reasonably possible change in variable (ii) %
UK gas (p/therm)	**44**	**+/-22**	40	+/-15
European gas (p/therm)	**44**	**+/-22**	40	+/-15
UK power (£/MWh)	**53**	**+/-17**	45	+/-13
UK emissions (€/tonne)	**33**	**+/-7**	25	+/-7
UK oil (US$/bbl)	**50**	**+/-15**	60	+/-9
North American gas (US cents/therm)	**26**	**+/-4**	24	+/-4
North American power (US$/MWh)	**25**	**+/-6**	27	+/-6

Incremental profit/(loss)	**2020 Impact on profit (ii) £m**	2019 Impact on profit (ii) £m
UK and European energy prices (combined) – increase/(decrease)	**83/(84)**	39/(43)
North American energy prices (combined) – increase/(decrease)	**304/(304)**	287/(287)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for energy prices.

The impact on other comprehensive income of such price changes is immaterial.

Credit risk management

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

The Group continually reviews its rating thresholds for relevant counterparty credit limits and updates these as necessary, based on a consistent set of principles. It continues to operate within its limits. In respect of trading activities for both the US and Europe there is an effort to maintain a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

Supplementary information continued

S3. Financial risk management

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. The maximum exposure to credit risk for financial instruments at fair value is equal to their carrying value. Gross amounts are shown by counterparty credit rating in the table below. Further details of other collateral and credit security not offset against these amounts is shown in note S6.

	2020 (i)				2019			
	Financial assets at amortised cost		**Financial assets at fair value**		Financial assets at amortised cost		Financial assets at fair value	
31 December	**Receivables including treasury, trading and energy procurement counterparties (ii) £m**	**Cash and cash equivalents £m**	**Cash and cash equivalents £m**	**Derivative financial instruments with positive fair values £m**	Receivables including treasury, trading and energy procurement counterparties £m	Cash and cash equivalents £m	Cash and cash equivalents £m	Derivative financial instruments with positive fair values £m
AAA to AA	**71**	**–**	**1,049**	**13**	148	–	621	31
AA– to A–	**320**	**844**	**–**	**827**	268	699	–	487
BBB+ to BBB–	**499**	**8**	**–**	**543**	580	8	–	763
BB+ to BB–	**63**	**–**	**–**	**273**	123	–	–	331
B+ or lower	**17**	**–**	**–**	**38**	10	–	–	32
Unrated (iii)	**3,698**	**26**	**–**	**55**	3,981	14	–	169
	4,668	**878**	**1,049**	**1,749**	5,110	721	621	1,813

(i) Included above is £1,546 million of receivables, £107 million of cash and cash equivalents and £159 million of derivative financial instruments included in assets held for sale.

(ii) The Group holds a provision of £673 million (2019: £589 million) against receivables, including amounts presented as part of disposal groups classified as held for sale. The significant majority of this provision is held against amounts due from unrated counterparties.

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

Details of how credit risk is managed across the asset categories are provided below:

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist (see note S6 for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See note 24 for details of cash posted or received under margin or collateral agreements.

100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions. The impairment considerations of IFRS 9 are applicable to financial assets arising from treasury, trading and energy procurement activities that are carried at amortised cost and equity instruments that are carried at fair value through other comprehensive income (FVOCI). Equity instruments measured at FVOCI are not material for further disclosure.

Included in the table above within receivables including treasury, trading and energy procurement counterparties is £918 million (2019: £1,246 million) of treasury, trading and energy procurement assets. The Group's risk assessment procedures and counterparty selection process ensure that the credit risk on this type of financial asset is always low at initial recognition.

Included within the table above is information about the exposure to credit risk arising from only certain of the Group's energy procurement contracts – those in the scope of IFRS 9. Whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IFRS 9 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Trade receivables and contract assets

The simplified approach of measuring lifetime expected credit losses has been applied to trade receivables and contract asset balances, which are the focus of this disclosure. Therefore, consideration of the significance of any change in credit risk since initial recognition for the purpose of applying this model is not required for any material component of the receivables balance.

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit to ensure that there is sufficient liquidity headroom at all points in the seasonal trading cycle of the business. See note 24 for further information.

S3. Financial risk management

Maturity profiles

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

Due for payment 2020	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis (i)	(237)	(35)	(11)	(6)	(6)	(14)
Gross energy procurement contracts and other derivative buy trades carried at fair value (i) (ii)	(3,045)	(2,056)	(1,769)	(1,643)	(1,055)	(352)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(5,701)	(773)	(158)	(27)	(2)	(56)
Inflow	5,857	771	156	24	–	102
Financial liabilities within provisions (i)	(120)	(32)	(16)	(13)	(13)	(27)
Borrowings (bank loans, bonds, overdrafts and interest)	(733)	(467)	(383)	(153)	(592)	(4,539)
Leases: (iii)						
Minimum lease payments	(186)	(108)	(76)	(56)	(50)	(86)
Capital elements of leases	(179)	(104)	(74)	(53)	(48)	(82)

Due for payment 2019	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(353)	(59)	(30)	(8)	(5)	(14)
Gross energy procurement contracts and other derivative buy trades carried at fair value (ii)	(4,506)	(2,651)	(1,763)	(1,812)	(2,033)	(1,602)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(4,378)	(1,721)	(345)	(34)	(2)	(59)
Inflow	4,367	1,818	341	32	–	96
Financial liabilities within provisions	(152)	(28)	(29)	(10)	(7)	(23)
Borrowings (bank loans, bonds, overdrafts and interest)	(808)	(834)	(469)	(391)	(154)	(4,473)
Leases: (iii)						
Minimum lease payments	(171)	(132)	(65)	(37)	(30)	(95)
Capital elements of leases	(163)	(127)	(61)	(35)	(28)	(89)

(i) Included within contractual cash flows for derivatives to be settled net, gross energy procurement contracts and other derivative buy trades, and financial liabilities within provisions are £142 million, £1,854 million and £28 million respectively that relate to the Direct Energy disposal group. Of these amounts, £109 million, £956 million and £18 million were contractually due within 12 months of the reporting date. The disposal of Direct Energy completed on 5 January 2021.

(ii) Proprietary energy trades are excluded from this maturity analysis as the Group does not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date. See note 19 for further details.

(iii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges. Lease liabilities of £35 million relating to the Direct Energy business are included in liabilities held for sale.

Supplementary information continued

S4. Other equity

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Financial asset at FVOCI reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Merger, capital redemption and other reserves £m	Total £m
1 January 2019	11	(68)	(629)	2	(107)	92	525	(174)
Actuarial loss	–	–	(465)	–	–	–	–	(465)
Employee share schemes:								
Exercise of awards	–	–	–	–	70	(60)	–	10
Value of services provided	–	–	–	–	–	41	–	41
Impact of cash flow hedging	(6)	–	–	–	–	–	–	(6)
Taxation on above items	2	–	78	–	–	–	–	80
Share of other comprehensive income of joint ventures and associates, net of taxation	–	–	29	–	–	–	–	29
Exchange differences on translation of foreign operations	–	(110)	–	–	–	–	–	(110)
Exchange differences reclassified to Group Income Statement on disposal	–	(18)	–	–	–	–	–	(18)
Other movements	–	–	–	2	–	–	2	4
31 December 2019	7	(196)	(987)	4	(37)	73	527	(609)
Actuarial loss	–	–	(501)	–	–	–	–	**(501)**
Employee share schemes:								
Exercise of awards	–	–	–	–	36	(46)	–	**(10)**
Value of services provided	–	–	–	–	–	52	–	**52**
Purchase of own shares	–	–	–	–	(30)	–	–	**(30)**
Impact of cash flow and net investment hedging	11	50	–	–	–	–	–	**61**
Taxation on above items	(2)	(10)	122	–	–	–	–	**110**
Share of other comprehensive income of joint ventures and associates, net of taxation	–	–	58	–	–	–	–	**58**
Exchange differences on translation of foreign operations	–	(50)	–	–	–	–	–	**(50)**
Exchange differences reclassified to Group Income Statement on disposal	–	8	–	–	–	–	–	**8**
Other movements	–	–	–	(4)	–	–	–	**(4)**
31 December 2020	**16**	**(198)**	**(1,308)**	**–**	**(31)**	**79**	**527**	**(915)**

Merger, capital redemption and other reserves

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

On 8 December 2017, the Group's existing exploration and production business was combined with that of Bayerngas Norge AS to form the Spirit Energy business. The Group acquired 69% of the Spirit Energy business and Bayerngas Norge's former shareholders acquired 31%. The non-controlling interest established on acquisition has been based on its share of the carrying value of the combined business, with the other reserve representing the difference between the fair value and this carrying value.

In accordance with the Companies Act, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. Up to 31 December 2020 the cumulative nominal value of shares repurchased and subsequently cancelled was £28 million (2019: £28 million).

Own shares reserve

The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve

Treasury shares are acquired equity instruments of the Company.

S5. Hedge accounting

The Group primarily applies hedge accounting to address interest rate and foreign currency risk on borrowings.

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The Group recommenced net investment hedging during 2020 in respect of its investment in the US dollar subsidiaries in the Direct Energy business.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were as follows:

		2020			2019		
31 December	Hedge	**Assets £m**	**Liabilities £m**	**Change in fair value £m**	Assets £m	Liabilities £m	Change in fair value £m
Interest rate risk	Fair value	**182**	**(1)**	**93**	105	(2)	55
Foreign exchange risk	Cash flow hedge	**180**	**(9)**	**44**	131	(2)	(44)
Foreign exchange risk	Net investment hedge	**24**	**–**	**50**	–	–	–

2020	Hedge	**Timing of nominal amount**	**Average rate**	**Nominal value**	**Hedged item**	**Change in fair value of hedged item in year £m**	**Cumulative amount of fair value hedge adjustments on hedged item £m**	**Accumulated gains/(losses) in equity (i) £m**
Interest rate risk	Fair value	**2032-2033**	**Fixed to floating at LIBOR/US IBOR + 1%-5%**	**£50 million - £550 million, $250 million**	**Bonds (ii)**	**(93)**	**(164)**	**N/A**
Foreign exchange risk	Cash flow hedge	**2021-2032**	**GBP to Euro at 1.356**	**€50 million, €750 million**	**Euro bonds**	**(37)**	**N/A**	**22**
	Cash flow hedge	**2036-2038**	**GBP to Yen at 151.49**	**¥20 billion**	**Yen bank loans**	**(2)**	**N/A**	**(9)**
Foreign exchange risk	Net investment hedge/Cash flow hedge (iii)	**2021**	**GBP to USD at 1.34**	**$2.3 billion**	**Carrying value of net assets of subsidiary/ disposal proceeds**	**(55)**	**N/A**	**55**

2019	Hedge	Timing of nominal amount	Average rate	Nominal value	Hedged item	Change in fair value of hedged item in year £m	Cumulative amount of fair value hedge adjustments on hedged item £m	Accumulated gains/(losses) in CFHR (i) £m
Interest rate risk	Fair value	2022-2033	Fixed to floating at LIBOR/US IBOR + 1%-5%	£50 million - £550 million, $250 million	Bonds (ii)	(57)	(85)	N/A
Foreign exchange risk	Cash flow hedge	2021-2032	GBP to Euro at 1.356	€50 million, €750 million	Euro bonds	42	N/A	25
	Cash flow hedge	2036-2038	GBP to Yen at 151.49	¥20 billion	Yen bank loans	1	N/A	(18)

(i) In the years presented all amounts related to continuing cash flow hedge relationships.
(ii) The carrying amount of bonds designated as hedged items in hedging relationships is disclosed in note 24.
(iii) The Group recommenced net investment hedging in 2020 in respect of the US dollar subsidiaries of its Direct Energy business. During 2020 the Group also used cash flow hedging to protect against exchange risk on the sterling value of the US dollar proceeds received on completion of the disposal of that business in 2021. Of the total notional US dollar value hedging, $305 million relates to this cash flow hedging strategy.

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Supplementary information continued

S5. Hedge accounting

Fair value hedges

A derivative is designated as a hedging instrument and its relationship to a recognised asset or liability is classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement in net finance cost. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and begins no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Impact of interest rate benchmark reform

The Group has continued to apply Phase 1 of the amendments to IFRS 9, IAS 39 and IFRS 7: "Interest benchmark reform" during 2020. The amendments permit continuation of hedge accounting even if, in the future, the benchmark interest rate applicable to the hedge may not be separately identifiable.

The Group continues to monitor developments and consider the impact of reform, concluding that the primary impact relates to fair value hedging relationships in which fixed interest rates on bonds are swapped for floating rates linked to IBOR rates, as detailed in the above table.

In 2021, the Group expects to apply Phase 2 of the amendments as described in note 1. The Group has assumed that the uncertainty arising from interest rate reform will not end until the Group's contracts that reference IBORs are amended and appropriate language is introduced into relevant contracts. Work to ensure systems and processes are appropriately updated, along with discussions with counterparties around contract amendments is ongoing.

Cash flow hedges

A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve through other comprehensive income are transferred to the Group Income Statement in the period in which the hedged item affects profit or loss. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Group Income Statement.

Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging is immaterial.

Net investment hedges

Hedges of net investments in foreign operations hedge the exposure of the sterling value of the assets of foreign currency subsidiaries in the consolidated Financial Statements to changes in exchange rates. Such hedges are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. On disposal of the foreign operation, the cumulative gains or losses recognised directly in equity are transferred to the Group Income Statement.

The Group initially ceased any net investment hedging activity in 2009. The Group recommenced this strategy in respect of the US dollar subsidiaries in its Direct Energy business in 2020. The financial instruments in this net investment hedging relationship are forward US dollar/sterling foreign exchange contracts. No material ineffectiveness was recognised in the Group Income Statement in respect of this relationship.

S6. Fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

(a) Fair value hierarchy

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

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

	2020 (i)				2019			
31 December	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	21	1,199	91	**1,311**	1	1,241	228	1,470
Interest rate derivatives	–	185	–	**185**	–	108	–	108
Foreign exchange derivatives	–	253	–	**253**	–	235	–	235
Treasury gilts designated FVTPL	–	–	–	**–**	124	–	–	124
Debt instruments	84	–	–	**84**	77	–	–	77
Equity instruments	25	–	29	**54**	26	–	28	54
Cash and cash equivalents	–	1,049	–	**1,049**	–	621	–	621
Total financial assets at fair value	**130**	**2,686**	**120**	**2,936**	228	2,205	256	2,689
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	–	(983)	(129)	**(1,112)**	(146)	(1,778)	(90)	(2,014)
Interest rate derivatives	–	(1)	–	**(1)**	–	(25)	–	(25)
Foreign exchange derivatives	–	(55)	–	**(55)**	–	(106)	–	(106)
Total financial liabilities at fair value	**–**	**(1,039)**	**(129)**	**(1,168)**	(146)	(1,909)	(90)	(2,145)

(i) The table above includes £159 million derivative assets, £240 million derivative liabilities and £4 million equity instruments which are classified as held for sale on the Group Balance Sheet.

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

	2020 (i)		2019	
	Financial assets £m	**Financial liabilities £m**	Financial assets £m	Financial liabilities £m
Level 3 financial instruments				
1 January	**256**	**(90)**	175	(59)
Total realised and unrealised (losses)/gains:				
Recognised in Group Income Statement	**(40)**	**(57)**	17	(10)
Purchases, sales, issuances and settlements (net)	**(79)**	**16**	28	(26)
Transfers between Level 2 and Level 3 (ii)	**(15)**	**1**	38	5
Foreign exchange movements	**(2)**	**1**	(2)	–
31 December	**120**	**(129)**	256	(90)
Total losses for the year for Level 3 financial instruments held at the end of the reporting year	**(44)**	**(57)**	(14)	(2)

(i) At 31 December 2020 includes £52 million of Level 3 financial assets, and £20 million of Level 3 financial liabilities that are classified as are held for sale on the Group Balance Sheet.
(ii) Transfers between levels are deemed to occur at the beginning of the reporting period.

Supplementary information continued

S6. Fair value of financial instruments

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market, with the resulting market value discounted back to present value using observable yield curves.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the year was 1% (Europe) and 3% (North America) per annum (31 December 2019 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (Europe) and 3% (North America) per annum (31 December 2019 average discount rate of 2% (Europe) and 3% (North America) per annum).

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**4**	**4**	**3**	**3**	**4**
North America (years)	**5**	**Up to 5**	**N/A**	**Up to 5**	**4**

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

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into that are within the scope of IFRS 9. The Group has numerous other commodity contracts that are outside of the scope of IFRS 9 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed into the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IFRS 9, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Day-one gains deferred	**2020 £m**	2019 £m
1 January	**47**	27
Net gains deferred on transactions in the year	**16**	11
Net amounts recognised in Group Income Statement	**–**	2
Exchange differences	**1**	7
31 December	**64**	47

S6. Fair value of financial instruments

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December		Notes	2020 Carrying value £m	2020 Fair value £m	2020 Fair value hierarchy	2019 Carrying value £m	2019 Fair value £m	2019 Fair value hierarchy
Bank loans		24(d)	**(144)**	**(195)**	**Level 2**	(144)	(176)	Level 2
Bonds	Level 1	24(d)	**(4,004)**	**(4,825)**	**Level 1**	(3,963)	(4,595)	Level 1
	Level 2	24(d)	**(107)**	**(148)**	**Level 2**	(102)	(138)	Level 2

Bank loans and borrowings

The fair values of bonds classified as Level 1 within the fair value hierarchy are calculated using quoted market prices. The fair values of Level 2 bonds and bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts and short-term loans are assumed to equal their book values due to the short-term nature of these amounts.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables, lease liabilities and provisions are estimated to approximate their carrying values.

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

				Related amounts not offset in the Group Balance Sheet (i)		
31 December 2020	**Gross amounts of recognised financial instruments £m**	**Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m**	**Net amounts presented in the Group Balance Sheet £m**	**Financial instruments £m**	**Collateral £m**	**Net amount £m**
Derivative financial assets	**5,609**	**(3,860)**	**1,749**	**(266)**	**(68)**	**1,415**
Derivative financial liabilities	**(5,028)**	**3,860**	**(1,168)**	**266**	**56**	**(846)**
			581			**569**
Balances arising from commodity contracts:						
Accrued and unbilled downstream and energy income	**4,837**	**(2,830)**	**2,007**	**(168)**	**–**	**1,839**
Accruals for commodity costs	**(4,353)**	**2,830**	**(1,523)**	**168**	**–**	**(1,355)**
Cash and financing arrangements:						
Cash and cash equivalents	**1,942**	**(15)**	**1,927**	**(534)**	**–**	**1,393**
Bank loans and overdrafts	**(693)**	**15**	**(678)**	**534**	**–**	**(144)**
Securities	**138**	**–**	**138**	**–**	**–**	**138**

				Related amounts not offset in the Group Balance Sheet (i)		
31 December 2019	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Financial instruments £m	Collateral £m	Net amount £m
Derivative financial assets	9,072	(7,259)	1,813	(505)	(35)	1,273
Derivative financial liabilities	(9,404)	7,259	(2,145)	505	181	(1,459)
			(332)			(186)
Balances arising from commodity contracts:						
Accrued and unbilled downstream and energy income	5,625	(3,280)	2,345	(186)	–	2,159
Accruals for commodity costs	(5,146)	3,280	(1,866)	186	–	(1,680)
Cash and financing arrangements:						
Cash and cash equivalents	1,353	(11)	1,342	(548)	–	794
Bank loans and overdrafts	(703)	11	(692)	548	–	(144)
Securities	255	–	255	–	(26)	229

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes where the offsetting Group Balance Sheet class is not included within the above table.

(ii) Included in assets and liabilities held for sale are accrued energy income and accrued commodity costs of £684 million and £504 million respectively, cash and cash equivalents of £107 million, securities of £4 million, and derivative financial assets and liabilities of £159 million and £240 million respectively.

Supplementary information continued

S7. Fixed-fee service and insurance contracts

This section includes fixed-fee service (FFS) and insurance contract disclosures for services related to British Gas and Direct Energy. Direct Energy has been classified as a discontinued operation in 2020, with its assets and liabilities classified as held for sale in 2020. The disclosures given below relate to the Centrica Group as a whole.

FFS contracts in North America are entered into with home and business services customers. Insurance contracts in North America are entered into with home services customers.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL) and with business customers by British Gas Services (Commercial) Limited. Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until cancelled by either party; insurance contracts normally provide cover for 12 months with the option of renewal.

The contracts which protect policyholders against the risk of breakdowns result in the transfer of risk to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into. However, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under the contract terms are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults, and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. As the Group's insurance contract portfolio is comprised of a large number of contracts with small individual values, a high volume of claims with a relatively low unit cost results. The characteristics of the business mean that material concentrations or aggregations of risk are relatively remote. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- a specified number of safety and maintenance inspections are carried out as set out in the agreement (usually once a year);
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

The most significant insurance risk is an extreme weather event for an extended period, which has the propensity to increase claim frequencies. The Group regularly assesses insurance risk sensitivities, the most significant relating to increases in breakdown frequency and increases in the average cost of repair. A reasonably possible increase in either would not have a material impact on the results of the Group.

Revenue is recognised over the life of contracts (usually twelve months) having regard to the incidence of risk, in particular the seasonal propensity of claims which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by the Group within home services and the cost of parts utilised in repair or maintenance. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year.

The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:

- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contracts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of FFS claims and insurance claims incurred during the year were £8 million (2019: £20 million) and £338 million (2019: £341 million) respectively and are included in the table below in 'Expenses relating to FFS and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date in 2020 or 2019.

	2020 £m	2019 £m
Total revenue	**1,063**	1,118
Expenses relating to FFS and insurance contracts	**(872)**	(949)
Deferred income	**(72)**	(86)
Accrued income	**32**	33

The table above includes amounts related to disposal groups held for sale and discontinued operations.

The Group also considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

S8. Related party transactions

The Group's principal related party is its investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related in the current reporting period.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

	2020		2019	
	Purchase of goods and services £m	Amounts owed to £m	Purchase of goods and services £m	Amounts owed to £m
Associates:				
Nuclear	(501)	(49)	(454)	(51)
Joint Ventures	(7)	–	(16)	(1)
	(508)	(49)	(470)	(52)

During the year, there were no material changes to commitments in relation to joint ventures and associates.

At the balance sheet date, the Group committed facilities to the Lake Acquisition Group totalling £120 million, although nothing has been drawn at 31 December 2020.

Key management personnel comprise members of the Board and Executive Committee, a total of 11 individuals at 31 December 2020 (2019: 17).

Remuneration of key management personnel Year ended 31 December	2020 £m	2019 £m
Short-term benefits (i)	4.3	7.9
Post-employment benefits	0.4	1.0
Share-based payments	2.6	4.1
	7.3	13.0

(i) The value of the short-term benefits in 2020 includes a credit of £0.5 million in respect of bonuses which were included in 2019, but not subsequently paid.

Remuneration of the Directors of Centrica plc Year ended 31 December	2020 £m	2019 £m
Total emoluments (i)	2.7	4.0
Contributions into pension schemes	0.2	0.5

(i) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

Directors' interests in shares are given in the Remuneration Report on pages 66 to 75.

Supplementary information continued

S9. Auditors' remuneration

Year ended 31 December	2020 £m	2019 (restated) (i) £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated:		
Financial Statements	**5.5**	5.7
Audit of the Company's subsidiaries	**1.7**	1.7
Total fees related to the audit of the parent and subsidiary entities	**7.2**	7.4
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services (ii)	**3.0**	1.1
All other services (iii)	**1.3**	–
	11.5	8.5
Fees in respect of pension scheme audits (iv)	**0.1**	0.1

(i) Restated to re-present the £0.3 million (2019: £0.3 million) for the audit of the Ofgem Consolidated Segmental Statement as an audit-related assurance service fee instead of for the audit of the Company's consolidated Financial Statements.
(ii) Predominantly relates to the review of the condensed interim Financial Statements included in the interim results and assurance work associated with the Direct Energy disposal. Also, included is £0.3 million (2019: £0.3 million) for the audit of the Ofgem Consolidated Segmental Statement, required by regulation.
(iii) Relates to the Class 1 Circular reporting accountant work for the Direct Energy disposal.
(iv) The pension scheme audit continues to be performed by PricewaterhouseCoopers LLP.

During 2020, work on the divestment of Direct Energy required significant additional services from Deloitte to facilitate the sale. Approval for this expenditure was sought and received from the Audit and Risk Committee in advance of the work commencing. The work related to both the Reporting Accountant services in respect of the disposal Class 1 Circular and the audit of US GAAP carve-out accounts for Direct Energy, undertaken for purchaser NRG's purposes, but under the direction of the Group.

S10. Related undertakings

The Group has a large number of related undertakings principally in the UK, US, Norway, Canada, Denmark, the Netherlands and the Republic of Ireland. These are listed below.

(a) Subsidiary undertakings

Investments held directly by Centrica plc with 100% voting rights

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Beta Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Trading Limited	Dormant	United Kingdom / A	Ordinary shares
Rhodes Holdings HK Limited	Holding Company	Hong Kong / B	Ordinary shares

Investments held indirectly by Centrica plc with 100% voting rights

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Accord Energy (Trading) Limited	Dormant	United Kingdom / A	Ordinary shares
Accord Energy Limited	Dormant	United Kingdom / A	Ordinary shares
Airtron Inc. (ii)	Home and/or commercial services	United States / C	Ordinary shares
Alertme.com GmbH	Non-trading	Germany / D	Ordinary shares
Astrum Solar Inc.	Home and/or commercial services	United States / E	Ordinary shares
Atform Limited	Dormant	United Kingdom / A	Ordinary shares
AWHR America's Water Heater Rentals LLC (ii)	Home and/or commercial services	United States / C	Membership interest
Bord Gáis Energy Limited	Energy supply and power generation	Republic of Ireland / F	Ordinary shares
Bord Gáis Energy Trustees DAC	Pension trustee company	Republic of Ireland / F	Ordinary shares
Bounce Energy Inc. (ii)	Energy supply	United States / C	Ordinary shares
British Gas Energy Procurement Limited	Energy supply	United Kingdom / A	Ordinary shares
British Gas Finance Limited	Vehicle leasing	United Kingdom / A	Ordinary shares
British Gas Insurance Limited	Insurance provision	United Kingdom / A	Ordinary shares
British Gas Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas New Heating Limited	Electrical and gas installations	United Kingdom / A	Ordinary shares
British Gas Services (Commercial) Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Services Limited	Home services	United Kingdom / A	Ordinary shares
British Gas Social Housing Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Solar Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas Trading Limited	Energy supply	United Kingdom / A	Ordinary shares
British Gas X Limited	Energy supply	United Kingdom / A	Ordinary shares
Business Gas Limited	Dormant	United Kingdom / A	Ordinary shares
Caythorpe Gas Storage Limited	Gas storage	United Kingdom / G	Ordinary shares
CBS US Solar Fund 1 LLC	Distributed energy and power	United States / C	Membership interest
Centrica (IOM) Limited	Dormant	Isle of Man / H	Ordinary shares
Centrica (Lincs) Wind Farm Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Alpha Finance Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica America Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Barry Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Brigg Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Business Holdings Inc. (iii)	Holding company	United States / I	Ordinary shares
Centrica Business Solutions (Generation) Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Business Solutions Asset Management LLC	Energy management products and services	United States / C	Membership interest
Centrica Business Solutions Belgium NV	Demand response aggregation	Belgium / J	Ordinary shares
Centrica Business Solutions BV	Energy management products and services	Netherlands / K	Ordinary shares
Centrica Business Solutions Canada Inc.	Energy management products and services	Canada / L	Ordinary shares
Centrica Business Solutions Deutschland GmbH	Demand response aggregation	Germany / M	Ordinary shares
Centrica Business Solutions France SASU	Demand response aggregation	France / N	Ordinary shares
Centrica Business Solutions International Limited	Holding company	United Kingdom / A	Ordinary shares

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S10. Related undertakings

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Business Solutions Ireland Limited	Energy management products and services	Republic of Ireland / F	Ordinary shares
Centrica Business Solutions Italia Srl	Energy management products and services	Italy / O	Ordinary shares
Centrica Business Solutions Management Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Business Solutions México S.A. de C.V.	Energy management products and services	Mexico / P	Ordinary shares
Centrica Business Solutions Optimize LLC (iv)	Energy management products and services	United States / C	Membership interest
Centrica Business Solutions Romania Srl	Energy management products and services	Romania / Q	Ordinary shares
Centrica Business Solutions Services Inc. (iv)	Energy management products and services	United States / C	Ordinary shares
Centrica Business Solutions UK Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Centrica Business Solutions UK Optimisation Limited	Demand response aggregation	United Kingdom / A	Ordinary shares
Centrica Business Solutions US Inc.	Energy management products and services	United States / C	Ordinary shares
Centrica Business Solutions Zrt	Energy management products and services	Hungary / R	Ordinary shares
Centrica Combined Common Investment Fund Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Delta Limited	Dormant	Isle of Man / S	Ordinary shares
Centrica Directors Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Distributed Generation Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Energy (Trading) Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Marketing Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Operations Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Renewable Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Trading A/S	Energy services and wholesale energy trading	Denmark / T	Ordinary shares
Centrica Energy Trading GmbH	Energy services and wholesale energy trading	Germany / U	Ordinary shares
Centrica Energy Trading Pte. Ltd.	Energy services and wholesale energy trading	Singapore / V	Ordinary shares
Centrica Engineers Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Finance (Canada) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance (Scotland) Limited	Holding company	United Kingdom / W	Ordinary shares
Centrica Finance (US) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Finance Norway Limited	Dormant	Jersey / X	Ordinary shares
Centrica Gamma Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Hive Canada Inc. (ii)	Energy management products and services	Canada / L	Ordinary shares
Centrica Hive Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Centrica Hive Srl	Energy management products and services	Italy / Y	Ordinary shares
Centrica Hive US Inc. (ii)	Energy management products and services	United States / C	Ordinary shares
Centrica HoldCo GP LLC (ii)	Holding company	United States / C	Membership interest
Centrica Ignite GP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica Ignite LP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica India Offshore Private Limited	Business services	India / Z	Ordinary shares
Centrica Infrastructure Limited	Dormant	United Kingdom / W	Ordinary shares
Centrica Innovations UK Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica Innovations US Inc.	Investment company	United States / C	Ordinary shares
Centrica Insurance Company Limited	Insurance provision	Isle of Man / H	Ordinary and preference shares
Centrica Jersey Limited	Dormant	Jersey / AA	Ordinary shares
Centrica KPS Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Lake Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Leasing (KL) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica LNG Company Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica LNG UK Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica Nederland BV	Holding company	Netherlands / K	Ordinary shares
Centrica NewCo 123 Limited	Dormant	United Kingdom / A	Ordinary shares

S10. Related undertakings

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Nigeria Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica No.12 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Nominees No.1 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Offshore UK Limited	Gas and/or oil exploration and production	United Kingdom / G	Ordinary shares
Centrica Onshore Processing UK Limited	Dormant	United Kingdom / G	Ordinary shares
Centrica Overseas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica PB Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Pension Plan Trustees Limited	Dormant	United Kingdom / A	Limited by guarantee
Centrica Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Production Limited	Dormant	United Kingdom / W	Ordinary shares
Centrica Resources (Nigeria) Limited	Non-trading	Nigeria / AB	Ordinary shares
Centrica Resources (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Resources Petroleum UK Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Secretaries Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Services Limited	Business services	United Kingdom / A	Ordinary shares
Centrica Storage Holdings Limited	Holding company	United Kingdom / G	Ordinary shares
Centrica Storage Limited	Gas production and processing	United Kingdom / G	Ordinary shares
Centrica Trinidad and Tobago Limited	Business services	Trinidad and Tobago / AC	Ordinary shares
Centrica Trust (No.1) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Upstream Investment Limited	Dormant	United Kingdom / W	Ordinary shares
Centrica US Holdings Inc. (ii)	Holding company	United States / C	Ordinary shares
CH4 Energy Limited	Dormant	United Kingdom / A	Ordinary shares
CID1 Limited	Dormant	United Kingdom / A	Ordinary shares
CIU1 Limited	Dormant	United Kingdom / A	Ordinary shares
DEML Investments Limited	Holding company	Canada / AD	Ordinary shares
DER Development No.10 Ltd.	Holding company	Canada / L	Ordinary shares
Direct Energy (B.C.) Limited (ii)	Energy supply and/or services	Canada / AE	Ordinary shares
Direct Energy Business LLC (ii)	Energy supply and/or services	United States / C	Membership interest
Direct Energy Business Marketing LLC (ii)	Energy supply and/or services	United States / C	Membership interest
Direct Energy GP LLC (ii)	Holding company	United States / C	Membership interest
Direct Energy Holdings (Alberta) Inc. (ii)	Home and/or commercial services	Canada / L	Ordinary shares
Direct Energy HVAC Services Ltd. (ii)	Home and/or commercial services	Canada / L	Ordinary shares
Direct Energy Leasing LLC (ii)	Home and/or commercial services	United States / C	Membership interest
Direct Energy Marketing Inc. (ii)	Wholesale energy trading	United States / C	Ordinary and preference shares
Direct Energy Marketing Limited (ii)	Energy supply and/or services	Canada / AD	Ordinary shares
Direct Energy Operations LLC (ii)	Energy supply and/or services	United States / C	Membership interest
Direct Energy Services LLC (ii)	Energy supply and/or services	United States / C	Membership interest
Distributed Energy Asset Solutions Limited	Dormant	United Kingdom / A	Ordinary shares
Distributed Energy Customer Solutions Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Drips Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno Developments Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Plumbing Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Rod Limited	Operation of a franchise network	United Kingdom / A	Ordinary shares
Dyno-Security Services Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Services Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Contracts Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Electricity Direct (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
ENER-G Cogen International Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Nagykanizsa Kft	Energy management products and services	Hungary / R	Ordinary shares

Supplementary information continued

S10. Related undertakings

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
ENER-G Power2 Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Rudox LLC	Energy management products and services	United States / C	Membership interest
Energy For Tomorrow	Not-for-profit energy services	United Kingdom / A	Limited by guarantee
FES Energy Solutions Limited	Energy management products and services	Republic of Ireland / F	Ordinary shares
First Choice Power LLC (ii)	Energy supply and/or services	United States / AF	Membership interest
Gateway Energy Services Corporation (ii)	Energy supply	United States / AG	Ordinary shares
GB Gas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Generation Green Solar Limited	Dormant community benefit society	United Kingdom / A	Ordinary shares
GF One Limited (v)	In liquidation	United Kingdom / AH	Ordinary shares
GF Two Limited (v)	In liquidation	United Kingdom / AH	Ordinary shares
Goldbrand Development Limited	Dormant	United Kingdom / A	Ordinary shares
Hillserve Limited	Dormant	United Kingdom / A	Ordinary shares
Home Assistance UK Limited	Non-trading	United Kingdom / A	Ordinary shares
Home Warranty Holdings Corp. (ii)	Insurance provision	United States / C	Ordinary shares
Home Warranty of America Inc. (ii) (vi)	Home and/or commercial services	United States / AI	Ordinary shares
Home Warranty of America Inc. (ii) (vi)	Home and/or commercial services	United States / AJ	Ordinary shares
Io-Tahoe LLC	Data management	United States / C	Membership interest
Io-Tahoe UK Limited	Data management	United Kingdom / A	Ordinary shares
Io Tahoe Ukraine LLC	Data management	Ukraine / AK	Participatory interest
Masters Inc. (ii)	Home and/or commercial services	United States / E	Ordinary shares
Neas Energy Limited	Energy services and wholesale energy trading	United Kingdom / A	Ordinary shares
Neas Invest A/S	Dormant	Denmark / T	Ordinary shares
Newco One Limited	Dormant	United Kingdom / A	Ordinary shares
North Sea Infrastructure Partners Limited	Dormant	United Kingdom / W	Ordinary shares
NSIP (Holdings) Limited	Dormant	United Kingdom / W	Ordinary shares
P.H. Jones Facilities Management Ltd	Servicing and maintenance of heating systems	United Kingdom / A	Ordinary shares
P.H Jones Group Limited	Holding company	United Kingdom / A	Ordinary shares
Panoramic Power Ltd.	Energy management products and services	Israel / AL	Ordinary shares
Pioneer Shipping Limited	LNG vessel chartering	United Kingdom / A	Ordinary Shares
Repair and Care Limited	Dormant	United Kingdom / A	Ordinary shares
RSG Holding Corp. (ii)	Holding company	United States / C	Ordinary shares
Solar Technologies Group Limited	Dormant	United Kingdom / A	Ordinary shares
Solar Technologies Limited	Dormant	United Kingdom / A	Ordinary shares
Soren Limited	Dormant	United Kingdom / A	Ordinary shares
South Energy Investments LLC	Investment company	United States / AM	Membership interest
Vista Solar Inc.	Distributed energy and power	United States / AN	Ordinary shares

S10. Related undertakings

Investments held indirectly by Centrica plc with 69% voting rights

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Bayerngas Norge AS	Holding company	Norway / AO	Ordinary shares
Bowland Resources (No.2) Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Bowland Resources Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Elswick Energy Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
NSGP (Ensign) Limited	Gas and/or oil exploration and production	Jersey / AQ	Ordinary shares
Spirit Energy Hedging Holding Limited	Dormant	United Kingdom / AP	Ordinary shares
Spirit Energy Hedging Limited	Dormant	United Kingdom / AP	Ordinary shares
Spirit Energy Limited	Holding company	United Kingdom / AP	Ordinary and deferred shares
Spirit Energy Nederland BV	Gas and/or oil exploration and production	Netherlands / AR	Ordinary shares
Spirit Energy Norway AS	Gas and/or oil exploration and production	Norway / AS	Ordinary shares
Spirit Energy North Sea Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Spirit Energy North Sea Oil Limited	Gas and/or oil exploration and production	United Kingdom / AT	Ordinary shares
Spirit Energy Production UK Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Spirit Energy Resources Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Spirit Energy Southern North Sea Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Spirit Energy Treasury Limited	Finance company	United Kingdom / AP	Ordinary shares
Spirit Europe Limited	Holding company	United Kingdom / AP	Ordinary shares
Spirit Infrastructure BV	Construction, ownership and exploitation of infrastructure	Netherlands / AR	Ordinary shares
Spirit North Sea Gas Limited	Gas and/or oil exploration and production	United Kingdom / AT	Ordinary shares
Spirit Norway Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares
Spirit Production (Services) Limited	Business services	United Kingdom / AT	Ordinary shares
Spirit Resources (Armada) Limited	Gas and/or oil exploration and production	United Kingdom / AP	Ordinary shares

(i) For list of registered addresses, refer to note S10(d).
(ii) Entity included in the sale of the North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc. on 5 January 2021.
(iii) Established in 2020.
(iv) The following name changes were made during the year: Centrica Business Solutions Delivery LLC to Centrica Business Solutions Optimize LLC and SmartWatt Energy Inc. to Centrica Business Solutions Services Inc.
(v) GF One Limited and GF Two Limited are 75% indirectly owned by Centrica plc.
(vi) Home Warranty of America Inc. is registered as separate entities in the states of California and Illinois.

Supplementary information continued

S10. Related undertakings

(b) Subsidiary undertakings – partnerships held indirectly by Centrica plc with 100% voting rights

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
CF 2016 LLP	Group financing	United Kingdom / A	Membership interest
CFCEPS LLP	Group financing	United Kingdom / A	Membership interest
CFCPP LLP	Group financing	United Kingdom / A	Membership interest
CPL Retail Energy LP (ii)	Energy supply	United States / C	Membership interest
Direct Energy LP (ii)	Energy supply	United States / AF	Membership interest
Direct Energy Partnership (ii)	Energy supply	Canada / L	Membership interest
Direct Energy Resources Partnership	Holding entity	Canada / L	Membership interest
Finance Scotland 2016 Limited Partnership	Group financing	United Kingdom / W	Membership interest
Finance Scotland CEPS Limited Partnership	Group financing	United Kingdom / W	Membership interest
Finance Scotland CPP Limited Partnership	Group financing	United Kingdom / W	Membership interest
Ignite Social Enterprise LP	Social enterprise investment fund	United Kingdom / A	Membership interest
WTU Retail Energy LP (ii)	Energy supply	United States / C	Membership interest

(i) For list of registered addresses, refer to note S10(d).
(ii) Entity included in the sale of the North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc. on 5 January 2021.

The following partnerships are fully consolidated into the Group Financial Statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate accounts for these entities:
- Finance Scotland 2016 Limited Partnership;
- Finance Scotland CEPS Limited Partnership;
- Finance Scotland CPP Limited Partnership; and
- Ignite Social Enterprise LP.

(c) Joint arrangements and associates

31 December 2020	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Indirect interest and voting rights (%)
Joint ventures (ii)				
Allegheny Solar 1 LLC	Energy supply and/or services	United States / AU	Membership interest	40.0%
Barrow Shipping Limited	Energy supply and/or services	United Kingdom / AV	Ordinary shares	50.0%
C2 Centrica MT LLC	Energy supply and/or services	United States / AW	Membership interest	50.0%
Celtic Array Limited	Development of an offshore windfarm	United Kingdom / A	Ordinary shares	50.0%
Eurowind Polska VI Sp z.o.o.	Operation of an onshore windfarm	Poland / AX	Ordinary shares	50.0%
Greener Ideas Limited	Development of flexible power generation sites	Republic of Ireland / F	Ordinary shares	50.0%
Rhiannon Wind Farm Limited	Dormant	United Kingdom / A	Ordinary shares	50.0%
Three Rivers Solar 1 LLC	Energy supply and/or services	United States / AU	Membership interest	40.0%
Three Rivers Solar 2 LLC	Energy supply and/or services	United States / AU	Membership interest	40.0%
Three Rivers Solar 3 LLC	Energy supply and/or services	United States / AU	Membership interest	40.0%
Vindpark Keblowo ApS	Operation of an onshore windfarm	Denmark / AY	Ordinary shares	50.0%
Associates (ii)				
Lake Acquisitions Limited	Holding company	United Kingdom / AZ	Ordinary shares	20.0%

(i) For list of registered addresses, refer to note S10(d).
(ii) Further information on the principal joint ventures and associate investments held by the Group is disclosed in notes 6 and 14.

All Group companies principally operate within their country of incorporation unless noted otherwise.

S10. Related undertakings

(d) List of registered addresses

Registered address key	Address
A	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom
B	Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong
C	3411 Silverside Road, Suite 104, Tatnall Building, Wilmington, DE 19810, United States
D	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
E	2 Wisconsin Circle #700, Chevy Chase, MD 20815, United States
F	1 Warrington Place, Dublin 2, Republic of Ireland (i)
G	Woodland House, Woodland Park, Hessle, HU13 0FA, United Kingdom
H	3rd floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
I	3411 Silverside Road, Rodney Building #104, Wilmington, DE 19810, United States
J	Posthofbrug 12, 2600 Antwerp, Belgium
K	Wiegerbruinlaan 2A, 1422 CB Uithoorn, Netherlands
L	350 7th Avenue SW, Suite 3400, Calgary AB T2P 3N9, Canada
M	Neuer Wall 10, 20354 Hamburg, Germany
N	60 Avenue Charles de Gaulle, Cs 60016, 92573, Neuilly sur Seine Cedex, France (ii)
O	Milan (MI), Via Emilio Cornalia 26, Italy
P	Presidente Masaryk no. 61, Piso 7, Mexico, D.f. CP 11570, Mexico
Q	Strada Martir Colonel Ioan U nr.28 camera 1, Municipiul Timisoara judet Timis, Romania
R	H-1106 Budapest Jászberényi út 24-36, Hungary
S	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man
T	Skelagervej 1, 9000 Aalborg, Denmark
U	Gustav-Mahler-Platz 1, 20354 Hamburg, Germany
V	220 Orchard Road, #05-01 Midpoint Orchard, Singapore 238852, Republic of Singapore
W	1 Waterfront Avenue, Edinburgh, Scotland EH5 1SG, United Kingdom
X	47 Esplanade, St Helier, JE1 0BD, Jersey
Y	Via Paleocapa Pietro 4, 20121, Milano, Italy
Z	G-74, LGF, Kalkaji, New Delhi, South Delhi, Delhi, 110019, India
AA	26 New Street, St Helier, JE2 3RA, Jersey
AB	Sterling Towers, 20 Marina, Lagos, Nigeria
AC	48-50 Sackville Street, Port of Spain, Trinidad and Tobago
AD	Bay Adelaide Centre, 333 Bay Street, Suite 2400, Toronto ON, M5H 2T6, Canada
AE	500 Burrard Street, Suite 2900, Vancouver BC V6C 0A3, Canada
AF	5444 Westheimer #1000, Houston, TX 77056, United States
AG	15 North Mill Street, Nyack, NY 10960, United States
AH	1 More London Place, London, SE1 2AF, United Kingdom
AI	1430 Truxtun Avenue, 5th floor, Bakersfield, CA 93301, United States
AJ	350 S. Northwest Highway #300, Park Ridge, IL 60068, United States
AK	20 A Heroiev Stalingrada Avenue, Kyiv 04210, Ukraine
AL	15 Atir Yeda Street, Kfar Saba, 44643, Israel
AM	6 Landmark Square, 4th Floor, Stamford CT 06901, United States
AN	4640 Admiralty Way, 5th floor, Marina del Rey, California 90292, United States
AO	Lilleakerveien 8, 0283 Oslo, Norway
AP	1st floor, 20 Kingston Road, Staines-upon-Thames, TW18 4LG, United Kingdom
AQ	Sanne, IFC 5, St Helier, JE1 1ST, Jersey
AR	Transpolis Building, Polarisavenue 39, 2132 JH Hoofddorp, Netherlands
AS	Veritasvien 29, 4007 Stavanger, Norway
AT	5th floor, IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom
AU	1209 Orange Street, Wilmington, New Castle County, DE 19801, United States
AV	c/o Wilkin Chapman LLP, The Maltings, 11-15 Brayford Wharf East, Lincoln, LN5 7AY, United Kingdom
AW	850 New Burton Road, Suite 201, Dover, DE 19904, United States
AX	Ul. Wysogotowska 23, 62-081 Przezmierowo, Wielkpolskie, Poland
AY	Mariagervej 58B, DK 9500 Hobro, Denmark
AZ	90 Whitfield Street, London, W1T 4EZ, United Kingdom

(i) Centrica Business Solutions Ireland Limited changed their registered address during the year from 1 The Seapoint Building, Clontarf, Dublin 3, Republic of Ireland to the address listed above.

(ii) Centrica Business Solutions France SASU changed their registered address during the year from Place de la Défense 12, Maison de la Défense, 92974, Paris, France to the address listed above.

Financial Statements

Supplementary information continued

S10. Related undertakings

(e) Summarised financial information

Material associates and joint arrangements

Management has determined that the investment in Lake Acquisitions Limited is sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information, along with reconciliations to the amounts included in the consolidated Group Financial Statements, for this investee.

Lake Acquisitions Limited

Summarised statement of total comprehensive income

	2020				2019			
Year ended 31 December	**Associate information reported to Group £m**	**Unadjusted 20% share £m**	**Fair value and other adjustments £m**	**Group share £m**	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m
Revenue	**2,748**	**550**	**–**	**550**	2,463	493	–	493
Operating profit before interest and tax	**433**	**87**	**(30)**	**57**	268	54	(58)	(4)
Profit for the year	**300**	**60**	**(36)**	**24**	166	33	(46)	(13)
Other comprehensive income	**291**	**58**	**–**	**58**	145	29	–	29
Total comprehensive income	**591**	**118**	**(36)**	**82**	311	62	(46)	16

Summarised balance sheet

	2020				2019			
31 December	**Associate information reported to Group £m**	**Unadjusted 20% share £m**	**Fair value and other adjustments (i) £m**	**Group share £m**	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m
Non-current assets	**19,328**	**3,866**	**574**	**4,440**	18,558	3,712	702	4,414
Current assets	**3,756**	**751**	**–**	**751**	3,426	685	(1)	684
Current liabilities	**(1,011)**	**(202)**	**–**	**(202)**	(674)	(135)	–	(135)
Non-current liabilities	**(13,528)**	**(2,706)**	**(14)**	**(2,720)**	(13,057)	(2,611)	(105)	(2,716)
Net assets	**8,545**	**1,709**	**560**	**2,269**	8,253	1,651	596	2,247

(i) Before cumulative impairments of £1,439 million (2019: £958 million) of the Group's associate investment.

During the year, dividends of £60 million (2019: £nil) were paid by the associate to the Group.

Joint operations – fields/assets

31 December 2020	Location	Percentage holding
Cygnus	UK North Sea	61%

S11. Non-controlling interests

The Group has one subsidiary undertaking with a non-controlling interest: Spirit Energy Limited, through which the Group carries out the majority of its exploration and production activities.

31 December	2020 Non-controlling interests %	2020 Loss for the year £m	2020 Total comprehensive loss £m	2020 Total equity £m	2020 Distributions to non-controlling interests £m	2019 Non-controlling interests %	2019 Loss for the year £m	2019 Total comprehensive loss £m	2019 Total equity £m	2019 Distributions to non-controlling interests £m
Spirit Energy Limited	**31%**	**(158)**	**(158)**	**425**	**–**	31%	(80)	(96)	583	124

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of Spirit Energy Limited and its subsidiaries that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

Summarised statement of total comprehensive income

Year ended 31 December	2020 £m	2019 £m
Revenue	**1,278**	1,579
Loss for the year	**(510)**	(258)
Other comprehensive loss	**–**	(52)
Total comprehensive loss	**(510)**	(310)

Summarised balance sheet

31 December	2020 £m	2019 £m
Non-current assets	**3,128**	4,200
Current assets	**791**	932
Assets of disposal groups classified as held for sale	**–**	11
Current liabilities	**(395)**	(606)
Liabilities of disposal groups classified as held for sale	**–**	(6)
Non-current liabilities	**(2,154)**	(2,651)
Net assets	**1,370**	1,880

Summarised cash flow

Year ended 31 December	2020 £m	2019 £m
Net decrease in cash and cash equivalents	**(20)**	(57)

Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Other equity (note II) £m	Total equity £m
1 January 2019	354	2,240	26	2,695	24	5,339
Profit for the year	–	–	–	567	–	567
Other comprehensive loss	–	–	–	–	(59)	(59)
Employee share schemes and other share transactions	–	–	2	(10)	51	43
Scrip dividend	6	90	–	–	–	96
Dividends paid to equity holders	–	–	–	(561)	–	(561)
31 December 2019	360	2,330	28	2,691	16	5,425
Loss for the year	–	–	–	(1,072)	–	**(1,072)**
Other comprehensive loss	–	–	–	–	(61)	**(61)**
Employee share schemes and other share transactions	1	17	–	(8)	12	**22**
31 December 2020	**361**	**2,347**	**28**	**1,611**	**(33)**	**4,314**

As permitted by section 408(3) of the Companies Act 2006 no Income Statement or Statement of Comprehensive Income is presented.

The Directors do not propose a final dividend for the year ended 31 December 2020.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the consolidated Group Financial Statements.

The notes on pages 196 to 204 form part of these Financial Statements, along with note 25 to the consolidated Group Financial Statements.

Company Balance Sheet

31 December	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	IV	**13**	15
Investments	V	**1,117**	2,262
Trade and other receivables	VI	**36**	71
Derivative financial instruments	VII	**206**	241
Retirement benefit assets	XII	**38**	108
Securities		**108**	103
		1,518	2,800
Current assets			
Trade and other receivables	VI	**13,596**	13,770
Derivative financial instruments	VII	**231**	109
Current tax assets		**11**	11
Cash and cash equivalents		**899**	434
Securities		**–**	124
		14,737	14,448
Total assets		**16,255**	17,248
Current liabilities			
Derivative financial instruments	VII	**(45)**	(104)
Trade and other payables	IX	**(6,843)**	(6,651)
Provisions for other liabilities and charges		**(1)**	(1)
Bank overdrafts, loans and other borrowings	XI	**(579)**	(631)
		(7,468)	(7,387)
Non-current liabilities			
Deferred tax liabilities	X	**(2)**	(11)
Derivative financial instruments	VII	**(12)**	(36)
Trade and other payables	IX	**(132)**	(168)
Provisions for other liabilities and charges		**(1)**	(1)
Retirement benefit liabilities	XII	**(66)**	(62)
Bank loans and other borrowings	XI	**(4,260)**	(4,158)
		(4,473)	(4,436)
Total liabilities		**(11,941)**	(11,823)
Net assets		**4,314**	5,425
Share capital		**361**	360
Share premium		**2,347**	2,330
Capital redemption reserve		**28**	28
Retained earnings [(i)]		**1,611**	2,691
Other equity	II	**(33)**	16
Total shareholders' equity		**4,314**	5,425

(i) Retained earnings includes a net loss after taxation of £1,072 million (2019: £567 million profit).

The Financial Statements on pages 194 to 204, of which the notes on pages 196 to 204 form part, along with note 25 to the consolidated Group Financial Statements, were approved and authorised for issue by the Board of Directors on 24 February 2021 and were signed on its behalf by:

Chris O'Shea
Group Chief Executive

Kate Ringrose
Group Chief Financial Officer

Centrica plc Registered No: 03033654

Notes to the Company Financial Statements

I. General information and principal accounting policies of the Company

General information

The Company is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales. The registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The Company Financial Statements are presented in pounds sterling with all values rounded to the nearest million pounds. Pounds sterling is the functional currency of the Company.

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100: 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements are prepared in accordance with FRS 101: 'Reduced Disclosure Framework'.

From 1 January 2020, the following standards and amendments are effective in the Company's Financial Statements:
- Amendments to IFRS 3: 'Business combinations';
- Amendments to IAS 1: 'Presentation of financial statements' and IAS 8: 'Accounting policies, changes in accounting estimates and errors'; and
- Conceptual Framework for Financial Reporting 2018.

These changes and other amendments effective during the year did not have any impact on the Company's Financial Statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:
- 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 reconciliation 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 Centrica plc, which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of certain disclosures required by IFRS 13: 'Fair value measurement' and the disclosures required by IFRS 7: 'Financial instruments: disclosures'. These disclosures have not been provided apart from those that are relevant for financial instruments held at fair value.

Measurement convention

The Company Financial Statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101; derivative financial instruments, financial instruments required to be measured at fair value through profit or loss or other comprehensive income, and those financial assets so designated at initial recognition, and the assets of the defined benefit pension schemes that have been measured at fair value; the liabilities of the defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying values of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

Going concern

The accounts have been prepared on a going concern basis, as described in the Directors' Report and note 24(b) of the consolidated Group Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The Company does not have any critical accounting judgements. It is subject to estimation uncertainty related to its share of the Group's pension scheme surplus/deficit, as detailed further in note 22 of the consolidated Group Financial Statements. The valuation of the Company's investments is also a key source of estimation uncertainty. The Company's net assets were higher than its market capitalisation on 31 December 2020, and this was an indicator of impairment. As a result of the impairment review conducted in light of this indicator, the Company recognised an impairment charge of £1,173 million predominantly in respect of its investment in Centrica Holdings Limited, based on an assessment of the investment's value in use. The key assumptions used in determining the recoverable amount of the Company's investments in subsidiaries are consistent with those used to value the underlying businesses and assets in those subsidiaries. Further details on these assumptions and related sensitivities are given in note 7 to the consolidated Financial Statements.

Principal accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Company Financial Statements.

I. General information and principal accounting policies of the Company

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 66 to 75 and in note S2 to the consolidated Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. When these costs are recharged to the subsidiary undertaking, the investment balance is reduced accordingly.

Fair value is measured using methods detailed in note S2 to the consolidated Group Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the Income Statement.

Property, plant and equipment

PP&E is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises purchase price and 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.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, on a straight-line basis, over a period of 3 to 10 years.

Investments

Fixed asset investments in subsidiaries' shares are held at deemed cost on transition to FRS 101 and at cost in accordance with IAS 27: 'Separate financial statements', less any provision for impairment as necessary.

Impairment

Impairment of investments in subsidiaries and non-financial assets

The Company's accounting policies in respect of impairment of property, plant and equipment, and intangible assets are consistent with those of the Group.

The carrying values of investments in subsidiary undertakings 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 investment in a subsidiary undertaking 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.

Impairment of other financial assets and credit losses for financial guarantee contracts

The Company's impairment policies in relation to financial assets are consistent with those of the Group, with additional consideration given to amounts owed by Group undertakings. Except for certain loans due in greater than one year, all outstanding receivable balances are repayable on demand and arise from funding provided by the Company to its subsidiaries. Were net receivers of funding unable to repay loan balances in full at maturity, or if the debt was otherwise called upon, the Company expects that in such circumstances the counterparty would either negotiate extended credit terms with the Company or obtain external financing to repay the balance. As such, the expected credit loss is either considered immaterial based on discounting the loan over the extended payment term, or has been calculated by applying a default loss rate based on the actual or proxy credit rating of the counterparty. No change in credit risk is deemed to have occurred since initial recognition for amounts not repayable on demand, and therefore a 12-month expected credit loss has been calculated based on the assessed probability of default.

The Company has applied the impairment requirements of IFRS 9 to financial guarantees issued to its subsidiary undertakings. Expected credit losses on such arrangements have been calculated according to the nature of the guarantee and the Company's estimate of potential exposure at the balance sheet date.

I. General information and principal accounting policies of the Company

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in notes 3(b) and 22 to the consolidated Group Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Note that as a participant in these multi-employer schemes, the Company could be liable for other entities' obligations (for example under section 75 of the Pensions Act). See note 22 of the consolidated Group Financial Statements for details of the overall scheme obligations. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax assets that are not eligible for offset against deferred tax liabilities are recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits in the foreseeable future, against which the deductible temporary difference can be utilised.

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

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Financial instruments

The Company's accounting policies for financial instruments are consistent with those of the Group as disclosed in note S2 to the consolidated Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal Risks and Uncertainties on pages 34 to 39 and in note S3 to the Group Financial Statements.

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

II. Other equity

	Cash flow hedging reserve £m	Actuarial gains and losses reserve £m	Financial asset at FVOCI reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Total £m
1 January 2019	9	26	4	(107)	92	24
Gains on revaluation of equity investments measured at fair value through other comprehensive income	–	–	4	–	–	4
Actuarial loss	–	(72)	–	–	–	(72)
Employee share schemes:						
Exercise of awards	–	–	–	70	(60)	10
Value of services provided	–	–	–	–	41	41
Impact of cash flow hedging	(4)	–	–	–	–	(4)
Taxation on above items	–	13	–	–	–	13
31 December 2019	5	(33)	8	(37)	73	16
Losses on revaluation of equity investments measured at fair value through other comprehensive income	–	–	(1)	–	–	**(1)**
Actuarial loss	–	(79)	–	–	–	**(79)**
Employee share schemes:						
Increase in own shares	–	–	–	(30)	–	**(30)**
Exercise of awards	–	–	–	36	(46)	**(10)**
Value of services provided	–	–	–	–	52	**52**
Impact of cash flow hedging	4	–	–	–	–	**4**
Taxation on above items	(1)	16	–	–	–	**15**
31 December 2020	**8**	**(96)**	**7**	**(31)**	**79**	**(33)**

III. Directors and employees

Employee costs

Year ended 31 December	2020 £m	2019 £m
Wages and salaries	**(13)**	(21)
Other	**(14)**	(18)
	(27)	(39)

Average number of employees during the year

Year ended 31 December	2020 Number	2019 Number
Administration	**134**	82
Power	**41**	74
	175	156

IV. Property, plant and equipment

	2020 £m
Cost	
1 January	**26**
Re-measurement of right-of-use asset	**5**
31 December	**31**
Accumulated depreciation	
1 January	**(11)**
Charge for year	**(7)**
31 December	**(18)**
NBV at 31 December	**13**

Included within the above balance is £13 million of right-of-use assets (2019: £15 million).

V. Investments in subsidiaries

	2020 (i) £m	2019 (i) £m
Cost		
1 January	**2,262**	2,258
Additions	**44**	–
Employee share scheme net capital movement (i)	**(16)**	4
31 December	**2,290**	2,262
Provision		
1 January	**–**	–
Impairment provided in the year (ii)	**(1,173)**	–
31 December	**(1,173)**	–
NBV at 31 December	**1,117**	2,262

(i) Employee share scheme movement is the net change in shares to be awarded under employee share schemes to employees of Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England, and Rhodes Holdings HK Limited, which is incorporated in Hong Kong. Related undertakings are listed in note S10 to the consolidated Group Financial Statements.

(ii) An impairment charge was recognised during the year, predominantly in relation to the investment in Centrica Holdings Limited.

The Directors believe that the carrying value of the investments is supported by their realisable value.

VI. Trade and other receivables

31 December	2020 Current (i) £m	2020 Non-current (ii) £m	2019 Current (i) £m	2019 Non-current (ii) £m
Amounts owed by Group undertakings	**13,590**	**29**	13,763	65
Prepayments	**6**	**7**	7	6
	13,596	**36**	13,770	71

(i) The amounts receivable by the Company include a gross balance of £13,871 million (2019: £12,383 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.5% and 5.9% per annum during 2020 (2019: 3.0% and 6.3%). The other amounts receivable from Group undertakings are interest free. All amounts receivable from Group undertakings are unsecured and repayable on demand. Amounts receivable by the Company are stated net of provisions of £563 million (2019: £418 million).

(ii) The amounts receivable by the Company due after more than one year include £20 million (2019: £20 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.4% and 4.7% per annum during 2020 (2019: 4.4% and 4.9%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable in two to three years.

VII. Derivative financial instruments

31 December	2020 Current £m	2020 Non-current £m	2020 Total £m	2019 Current £m	2019 Non-current £m	2019 Total £m
Derivative financial assets	**231**	**206**	**437**	109	241	350
Derivative financial liabilities	**(45)**	**(12)**	**(57)**	(104)	(36)	(140)

VIII. Financial instruments

(a) Determination of fair values

The Company's policies for the classification and valuation of financial instruments carried at fair value are consistent with those of the Group, as detailed in note S6 to the Group Financial Statements.

(b) Financial instruments carried at fair value

31 December	Level 1 £m	Level 2 £m	2020 Total £m	Level 1 £m	Level 2 £m	2019 Total £m
Financial assets						
Derivative financial assets held for trading:						
Foreign exchange derivatives	–	80	**80**	–	113	113
Interest rate derivatives	–	3	**3**	–	–	–
Derivative financial assets in hedge accounting relationships:						
Interest rate derivatives	–	182	**182**	–	108	108
Foreign exchange derivatives	–	172	**172**	–	129	129
Treasury gilts designated FVTPL	–	–	**–**	124	–	124
Debt instruments	84	–	**84**	77	–	77
Equity instruments designated FVOCI	24	–	**24**	26	–	26
Cash and cash equivalents	–	796	**796**	–	432	432
Total financial assets at fair value	**108**	**1,233**	**1,341**	227	782	1,009
Financial liabilities						
Derivative financial liabilities held for trading:						
Interest rate derivatives	–	–	**–**	–	(23)	(23)
Foreign exchange derivatives	–	(48)	**(48)**	–	(115)	(115)
Derivative financial liabilities in hedge accounting relationships:						
Interest rate derivatives	–	(1)	**(1)**	–	(2)	(2)
Foreign exchange derivatives	–	(8)	**(8)**		–	–
Total financial liabilities at fair value	**–**	**(57)**	**(57)**	–	(140)	(140)

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IX. Trade and other payables

31 December	2020 Current (i) £m	2020 Non-current (ii) £m	2019 Current (i) £m	2019 Non-current (ii) £m
Amounts owed to Group undertakings	**(6,818)**	**(132)**	(6,616)	(158)
Accruals and other creditors	**(25)**	**–**	(35)	(10)
	(6,843)	**(132)**	(6,651)	(168)

(i) The amounts payable by the Company include £5,834 million (2019: £5,120 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.5% and 5.9% per annum during 2020 (2019: 3.0% and 6.3%). Other amounts payable by the Company are interest free.

(ii) The amounts payable by the Company due after more than one year include £120 million (2019: £100 million) that bears interest at the prevailing SONIA rate less 0.05% (prior to May 2020 LIBOR rate less 0.05%). These amounts payable are due in over five years. Other amounts payable by the Company are interest free.

X. Deferred tax

	Retirement benefit obligation £m	Other £m	Total £m
1 January 2019	(10)	(10)	**(20)**
(Charge)/credit to income	(6)	3	**(3)**
Credit to equity	12	–	**12**
31 December 2019	(4)	(7)	**(11)**
Charge to income	(5)	(1)	**(6)**
Credit/(charge) to equity	16	(1)	**15**
31 December 2020	**7**	**(9)**	**(2)**

Other deferred tax liabilities primarily relate to other temporary differences. All deferred tax crystallises in over one year.

XI. Bank overdrafts, loans and other borrowings

31 December	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 Non-current £m
Bank loans and overdrafts	**(489)**	**(144)**	(483)	(144)
Bonds	**–**	**(4,111)**	(60)	(4,005)
Interest accruals	**(82)**	**–**	(82)	–
Lease obligations	**(8)**	**(5)**	(6)	(9)
	(579)	**(4,260)**	(631)	(4,158)

Disclosures in respect of the Group's financial liabilities are provided in notes 24 and S3 to the Group Financial Statements. With the exception of leases and overdrafts, materially all of the Group's financing activity is carried out through the Company.

XII. Pensions

(a) Summary of main schemes

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

Together with the Centrica Engineers Pensions Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the Group Financial Statements as the 'Registered Pension Schemes'.

(b) Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the consolidated Group Financial Statements.

(c) Movements in the year

	2020		2019	
	Pension liabilities £m	**Pension assets £m**	Pension liabilities £m	Pension assets £m
1 January	**(1,446)**	**1,492**	(1,370)	1,461
Items included in the Company Income Statement:				
Current service cost	**(8)**	**–**	(11)	–
Past service credit	**–**	**–**	29	–
Interest on scheme liabilities	**(31)**	**–**	(39)	–
Expected return on scheme assets	**–**	**33**	–	43
Termination benefits	**(10)**	**–**	–	–
Items included in the Company Statement of Comprehensive Income:				
Actuarial (loss)/gain	**(165)**	**86**	(75)	3
Other movements:				
Employer contributions	**–**	**21**	–	32
Benefits paid from schemes	**49**	**(49)**	47	(47)
Transfers	**–**	**–**	(27)	–
31 December	**(1,611)**	**1,583**	(1,446)	1,492

Presented in the Company Balance Sheet as:

31 December	**2020 £m**	2019 £m
Retirement benefit pension assets	**38**	108
Retirement benefit pension liabilities	**(66)**	(62)
	(28)	46

The pension scheme liabilities relate to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial losses recognised in reserves (note II)

Year ended 31 December	**2020 £m**	2019 £m
Actuarial gain (actual return less expected return on pension scheme assets)	**86**	3
Experience (loss)/gain arising on the scheme liabilities	**(7)**	42
Changes in assumptions underlying the present value of the schemes' liabilities	**(158)**	(117)
Actuarial loss recognised in reserves before adjustment for taxation	**(79)**	(72)
Cumulative actuarial (losses)/gains recognised in reserves at 1 January, before adjustment for taxation	**(40)**	32
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	**(119)**	(40)

XII. Pensions

(e) Defined benefit pension scheme contributions

Note 22 to the Group Financial Statements provides details of the triennial review carried out at 31 March 2018 in respect of the UK Registered Pension Schemes and the future pension scheme contributions, including asset-backed arrangements, agreed as part of this review. Under IAS 19, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £4 million of employer contributions during 2021 at an average rate of 19% of pensionable pay together with contributions via the salary sacrifice arrangement of £2 million.

For details of the weighted average duration of the liabilities of the Registered Pension Schemes see note 22.

(f) Pension scheme assets

	2020			2019		
31 December	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**19**	**396**	**415**	188	346	534
Corporate bonds	**2,649**	**–**	**2,649**	2,646	–	2,646
High-yield debt	**2,069**	**1,286**	**3,355**	1,015	1,288	2,303
Liability matching assets	**2,192**	**1,069**	**3,261**	1,430	1,075	2,505
Property	**–**	**352**	**352**	–	316	316
Cash pending investment	**38**	**–**	**38**	695	–	695
Asset-backed contribution assets	**–**	**670**	**670**	–	738	738
Group pension scheme assets (i)	**6,967**	**3,773**	**10,740**	5,974	3,763	9,737

	2020 £m	2019 £m
Company share of the above	**1,583**	1,492

(i) Total pension scheme assets, including asset-backed contribution assets not recognised in the consolidated accounts.

XIII. Commitments

At 31 December 2020, the Company had commitments of £58 million (2019: £101 million) relating to contracts for outsourced services and £3 million (2019: £nil) relating to contracts for property services.

The Company has provided guarantees and letters of credit relating to its subsidiaries' trading activities and decommissioning obligations. At 31 December 2020, the Group has derivative liabilities of £1,168 million (2019: £2,145 million), and decommissioning liabilities of £2,408 million (2019: £2,223 million). See notes 19 and 21 to the consolidated Financial Statements for further information on these balances.

The Company has also provided guarantees in its role as sponsoring employer for the UK Registered Pension Schemes. These guarantees are for all present and future obligations of the Group to make payments to those schemes, and are capped at an amount equal to the potential section 75 (of Pensions Act 1995) debt that would be triggered in relation to the Centrica Engineers Pension Scheme, Centrica Pension Plan and Centrica Pension Scheme, were a Group employer entity to become insolvent, leave the schemes or cease to have active members, or on the winding up of the schemes. See note 22 of the consolidated Financial Statements for further details on these schemes.

The Company considers that the likelihood of these guarantees and letters of credit being called upon is remote.

XIV. Related parties

During the year the Company accepted cash deposits on behalf of the Spirit Energy group of companies giving rise to a Trade and other payables balance of £419 million (2019: £312 million). Spirit Energy Limited is a subsidiary of the Company, held indirectly, that is not wholly owned. See note 3 to the consolidated Financial Statements for more information.

Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions, is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by Gaffney, Cline & Associates for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe.

The principal fields in Spirit Energy are Kvitebjørn, Statfjord, Ivar Aasen, Cygnus, Maria, South and North Morecambe, Rhyl and Chiswick. The principal non-Spirit Energy field is Rough. The European reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

Estimated net 2P reserves of gas (billion cubic feet)	Spirit Energy (i)	Rough	**Total**
1 January 2020	683	63	**746**
Revisions of previous estimates (ii)	7	5	**12**
Disposals of reserves in place (iii)	(6)	–	**(6)**
Production (iv)	(111)	(23)	**(134)**
31 December 2020	573	45	**618**

Estimated net 2P reserves of liquids (million barrels)	Spirit Energy (i)	Rough	**Total**
1 January 2020	82	–	**82**
Revisions of previous estimates (ii)	4	–	**4**
Production (iv)	(12)	–	**(12)**
31 December 2020	74	–	**74**

Estimated net 2P reserves (million barrels of oil equivalent)	Spirit Energy (i)	Rough	**Total**
31 December 2020 (v)	170	7	**177**

(i) The movements represent Centrica's 69% interest in Spirit Energy.
(ii) Revision of previous estimates include those associated with North and South Morecambe, North Sea fields and Norwegian fields.
(iii) Reflects the disposal of interests in the Babbage assets.
(iv) Represents total sales volumes of gas and oil produced from the Group's reserves.
(v) Includes the total of estimated gas and liquids reserves at 31 December 2020 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Summary (Unaudited)

Year ended 31 December	2016 (restated) (i) (ii) (iii) £m	2017 (restated) (i) (iii) £m	2018 (restated) (i) (iii) £m	2019 (restated) (iii) £m	**2020 £m**
Group revenue from continuing operations included in business performance (i)	16,558	17,126	16,465	15,958	**14,949**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
British Gas (iii) (iv)	764	744	591	304	**281**
Bord Gáis Energy (iii) (iv)	46	47	44	50	**42**
Centrica Business Solutions (iii) (iv)	26	(45)	(40)	(20)	**(140)**
Energy Marketing & Trading (iii) (iv)	124	77	35	138	**174**
Upstream (iii) (iv)	199	256	567	178	**90**
	1,159	1,079	1,197	650	**447**
Operating profit from discontinued operations before exceptional items and certain re-measurements (iii) (iv)	308	161	195	251	**252**
Exceptional items and certain remeasurements after taxation	777	(407)	(416)	(1,531)	**(520)**
Profit/(loss) attributable to equity holders of the parent	1,672	328	183	(1,023)	**41**

	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	31.4	5.9	3.3	(17.8)	**0.7**
Adjusted earnings per ordinary share	16.8	12.5	11.2	7.3	**6.5**
Dividend per share in respect of the year	12.0	12.0	12.0	1.5	**–**

Assets and liabilities

31 December	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**
Goodwill and other intangible assets	4,383	4,326	4,456	4,033	**1,940**
Other non-current assets (ii) (v)	8,218	7,190	7,435	5,826	**4,767**
Net current assets/(liabilities) (ii)	1,220	1,705	284	(696)	**622**
Non-current liabilities (v)	(11,173)	(9,789)	(8,227)	(7,474)	**(8,072)**
Net assets of disposal groups held for sale	196	–	–	106	**2,125**
Net assets	2,844	3,432	3,948	1,795	**1,382**
Net debt (note 24)	(3,473)	(2,596)	(2,656)	(3,181)	**(2,769)**

Cash flows

Year ended 31 December	2016 £m	2017 £m	2018 £m	2019 £m	**2020 £m**
Cash flow from operating activities before exceptional payments	2,669	2,016	2,182	1,548	**1,532**
Payments relating to exceptional charges in operating costs	(273)	(176)	(248)	(298)	**(132)**
Net cash flow from investing activities	(803)	32	(1,007)	(503)	**(285)**
Cash flow before cash flow from financing activities	1,593	1,872	927	747	**1,115**

(i) 2018 Group revenue included in business performance has been restated to include the net result of certain commodity purchases and sales trades that are deemed to be speculative in nature. Earlier periods have not been restated and therefore are not presented on a comparable basis.
(ii) Results for the year ended 2016 have not been restated in accordance with IFRS 15: 'Revenue from contracts with customers' and therefore are not presented on a comparable basis.
(iii) Results have been restated to reflect the new operating structure of the Group. See note 1 for further details.
(iv) Adjusted operating profit has been restated to include the impact of business performance interest and taxation of joint ventures and associates.
(v) Results from the years ended 2016, 2017 and 2018 figures have not been presented in line with IFRS 16: 'Leases'.

Ofgem Consolidated Segmental Statement

Independent Auditor's Report to the Directors of Centrica plc and its Licensees

In our opinion the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees for the year ended 31 December 2020 is prepared, in all material respects, in accordance with:

- the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator Ofgem; and
- the basis of preparation on pages 214 to 216.

We have audited the Consolidated Segmental Statement of Centrica plc and its Licensees (as listed in footnote (i)) (the Group) for the year ended 31 December 2020 in accordance with the terms of our engagement letter dated 6 July 2020. The Consolidated Segmental Statement has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem's Standard Condition 19A and the Gas and Electricity Supply Licenses and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 214 to 216.

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 auditor's responsibilities for the audit of the CSS section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the CSS in the United Kingdom, 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.

Emphasis of matter – basis of accounting

We draw attention to pages 214 to 216 of the CSS which describes the basis of accounting. The CSS is prepared to assist the Company in complying with the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem. The basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the CSS may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the CSS, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the CSS is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the CSS is authorised for issue. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the CSS and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the CSS does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the CSS or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the CSS. 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 this regard.

Responsibilities of the Directors

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 214 to 216 and for such internal control as the Directors determine is necessary to enable the preparation of the CSS that are free from material misstatement, whether due to fraud or error.

In preparing the CSS, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the CSS

Our objectives are to obtain reasonable assurance about whether the CSS as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 this CSS.

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

Independent Auditor's Report to the Directors of Centrica plc and its Licensees

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Group's industry and its control environment, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Group operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the CSS. These included UK Companies Act and Ofgem's Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences; and
- do not have a direct effect on the CSS but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including significant component audit teams regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the CSS.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:
- Credit losses on financial assets within the Group's energy supply businesses ("Bad debt provisions"). Our audit approach for bad debt provisions was a combination of data analytics, substantive audit procedures and tests of internal control.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:
- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the CSS;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing internal audit reports.

Use of this report

This report is made solely to the Group's Directors, as a body, in accordance with our engagement letter dated 6 July 2020 and solely for the purpose of assisting the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be displayed on the Centrica plc website www.centrica.com and within the December 2020 Annual Report & Accounts (see footnote (ii)) to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc, for our work or this report, or for the opinions we have formed. The materiality level we used in planning and performing our audit was £17 million.

The engagement partner on the audit resulting in this independent auditor's report is Dean Cook.

Deloitte LLP
24 February 2021

London

(i) British Gas Trading Limited, Neas Energy Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica PB Limited and Centrica KL Limited.
(ii) The maintenance and integrity of Centrica plc's website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

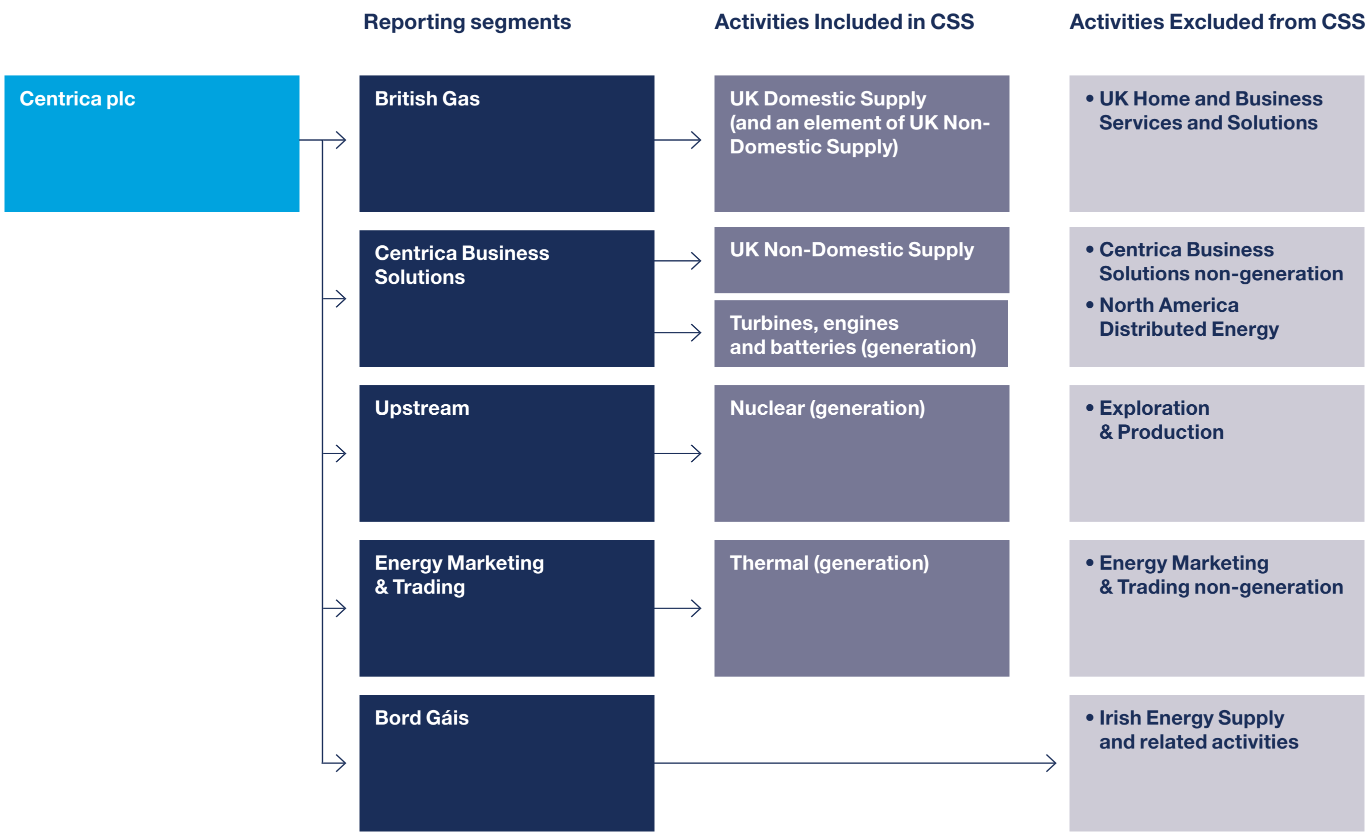
Introduction

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 209 to 218 are provided in order to comply with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information is prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Centrica plc Annual Report and Accounts for the year ended 31 December 2020, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Centrica plc operational reporting structure

Below is a summary of the Centrica plc Group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Annual Report and Accounts 2020 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licensed activities (for example Services and Solutions and other trading activity unrelated to Generation or Supply) as illustrated below. The Centrica plc Annual Report and Accounts 2020 provides operating segment results in note 4. A full reconciliation between the relevant operating segment results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



Centrica plc operational reporting structure

Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Annual Report and Accounts 2020 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2020 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
Neas Energy Limited (i)	Supply	100%
Centrica Brigg Limited	Exempt	100%
Centrica Barry Limited	Generation	100%
Centrica KPS Limited	Generation	100%
Centrica Distributed Generation Limited	Exempt	100%
Centrica PB Limited	Generation	100%
Centrica KL Limited (ii)	Generation	100%
EDF Energy Nuclear Generation Limited (iii)	Generation	20% Associate

(i) Neas Energy holds a supply licence but currently does not supply any UK customers.
(ii) Centrica KL Limited was disposed of by the Group on 12 February 2020.
(iii) The Group holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.

Ofgem consolidated segmental statement

Year ended 31 December 2020

	Unit	Electricity Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear	Thermal		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	**£m**	**511.4**	**199.2**	**710.6**	**3,181.9**	**1,528.7**	**3,193.3**	**428.0**	**8,331.9**
Sales of electricity & gas	£m	462.8	176.4	**639.2**	3,130.8	1,528.7	3,151.6	428.0	**8,239.1**
Other revenue	£m	48.6	22.8	**71.4**	51.1	–	41.7	–	**92.8**
Total operating costs	**£m**	**(354.1)**	**(170.7)**	**(524.8)**	**(3,122.6)**	**(1,585.8)**	**(3,043.8)**	**(418.0)**	**(8,170.2)**
Direct fuel costs	£m	(82.5)	(90.6)	**(173.1)**	(984.0)	(581.6)	(1,382.1)	(240.4)	**(3,188.1)**
Direct costs	£m	(230.3)	(72.8)	**(303.1)**	(1,664.8)	(852.5)	(1,087.2)	(118.1)	**(3,722.6)**
Transportation costs	£m	(52.1)	(0.6)	**(52.7)**	(769.9)	(360.3)	(924.4)	(94.5)	**(2,149.1)**
Environmental and social obligation costs	£m	–	(47.5)	**(47.5)**	(809.3)	(455.3)	(76.8)	–	**(1,341.4)**
Other direct costs	£m	(178.2)	(24.7)	**(202.9)**	(85.6)	(36.9)	(86.0)	(23.6)	**(232.1)**
Indirect costs	£m	(41.3)	(7.3)	**(48.6)**	(473.8)	(151.7)	(574.5)	(59.5)	**(1,259.5)**
WACOF/E/G	**£/MWh, P/th**	**(9.1)**	**(44.5)**	**N/A**	**(58.2)**	**(56.5)**	**(51.4)**	**(48.0)**	**N/A**
EBITDA	**£m**	**157.3**	**28.5**	**185.8**	**59.3**	**(57.1)**	**149.5**	**10.0**	**161.7**
DA	£m	(141.3)	(17.8)	**(159.1)**	(43.7)	(12.7)	(53.3)	(5.2)	**(114.9)**
EBIT	**£m**	**16.0**	**10.7**	**26.7**	**15.6**	**(69.8)**	**96.2**	**4.8**	**46.8**
Volume	TWh, MThms	9.1	3.1	N/A	16.9	10.3	2,686.5	501.0	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	5,250.4	464.9	6,402.5	179.7	N/A

	Unit	Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**0.5%**	**(4.6)%**	**3.0%**	**1.1%**	**0.6%**
Supply PAT	**£m**	**12.6**	**(56.5)**	**77.9**	**3.8**	**38.0**
Supply PAT	**margin**	**0.4%**	**(3.7)%**	**2.4%**	**0.9%**	**0.5%**

2019 Summarised CSS

Year ended 31 December 2019

	Unit	Electricity Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear	Thermal		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	534.8	262.5	797.3	3,166.3	1,574.1	3,642.0	467.2	8,849.6
EBIT	£m	27.1	(31.8)	(4.7)	(35.6)	15.8	172.1	38.5	190.8

	Unit	Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin	(1.1)%	1.0%	4.7%	8.2%	2.2%
Supply PAT	£m	(28.7)	12.7	139.1	31.2	154.3
Supply PAT	margin	(0.9)%	0.8%	3.8%	6.7%	1.7%

Glossary of terms

- 'WACOF/E/G' is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes. For the Thermal sub-segment, the cost of carbon emissions is added to direct fuel costs before dividing by the generated volume.
- 'EBITDA' is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- 'DA' is depreciation and amortisation.
- 'EBIT' is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- 'Supply EBIT margin' is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- 'Supply PAT' is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- 'Supply PAT margin' is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- 'Volume' for Supply is supplier volumes at the meter point (i.e. net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (i.e. generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).
- 'Average customer numbers/sites' are calculated by adding average monthly customer numbers/sites (as defined in the basis of preparation) and dividing by 12.
- 'Scheduling decisions' means the decision to run individual generation units.
- 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 'Interacts with wider market participants to buy/sell energy' means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 'Bears short-term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Business functions table

Year ended 31 December 2020 – analysis of business functions [i]

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral) [ii]
Holds unhedged positions (either short or long)	✓	✓	✓ [ii]
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	–	✓ [ii] [iii]
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓ [iv]	✓ [iv]	✓ [iv]
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.
(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market-facing legal entity. CEL forms part of our non-licensed element of Energy Marketing & Trading function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).
(iii) 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.
(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:

✓ Function resides and profit/loss recorded in segment.
– Neither function nor profit/loss reside in segment.

Basis of preparation

The following notes provide a summary of the basis of preparation of the 2020 submission.

The Ofgem CSS segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel, and volumes, in order to increase energy market transparency for consumers and other stakeholders.

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2020, included in the Centrica plc Annual Report and Accounts 2020 which have been prepared under IFRS as adopted by the EU (in accordance with paragraph 3/19A.3).

The CSS has been prepared on a going concern basis, as described in the Directors' Report and note 24 in the Centrica plc Annual Report and Accounts 2020.

For the Generation segment, we have included the financial results from all activities that relate to our generation licences. For clarity the following judgements have been made:

- the Group has a long-term tolling contract in respect of the Spalding power station, but does not specifically hold the generation licence. This arrangement provides the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We do not own the power station and the Group does not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a lease (under IFRS) and therefore the financial result and volume has been included in the Thermal sub-segment, within the Generation segment;
- Brigg and Roosecote power stations had their licences revoked on 2 July 2015 (at their request) because they no longer required an electricity generation licence and are now exempt. Whilst we do not specifically hold a generation licence for these power stations, the financial results from these businesses have been included in the Thermal sub-segment and hence within the Generation segment;
- the Group has a 20% equity interest in Lake Acquisitions Limited, which owns eight nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our gross share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment; and
- where power is purchased from third parties (for example from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment. In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

Domestic Supply represents the revenue and associated costs in supplying gas and electricity to residential customers in the UK. Non-Domestic Supply represents the revenue and associated costs in supplying gas and electricity to business customers in the UK.

As a voluntary disclosure, to aid comparability, a summarised 2019 CSS with margins has been included within the report.

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2020, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from sales of electricity and gas for the Supply segment is recognised on the basis of gas and electricity supplied during the year to both domestic and non-domestic customers.
- Revenue from sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from Domestic Supply revenues directly, charged specifically to each fuel.
- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.

Basis of preparation

- The financial risks and rewards of owning and using the Group's power stations reside entirely in the reported Generation segment.
- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £51.1 million (2019: £78.1 million) in Domestic Electricity Supply and £41.7 million (2019: £73.0 million) in Domestic Gas Supply primarily relating to New Housing Connections and smart meter installations;
  - £22.8 million (2019: £30.4 million) in Thermal principally relating to Supplementary Balancing Reserve (SBR), Short Term Operating Reserve (STOR), Triad revenue and Capacity Market income; and
  - £48.6 million (2019: £38.3 million) revenue in Nuclear not directly related to energy sales, such as capacity market income and provision of miscellaneous services.

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of bilateral, over-the-counter (OTC) and exchange-based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis. The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact Domestic and Non-Domestic purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for turbines/engines is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
OTC	Broker supported market of standardised products, predominantly performed via screen-based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal OTC price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

WACOF/WACOE/WACOG

- For Generation this represents a proxy for the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the Generation business. Gas for turbines/engines is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost, the energy element of reconciliation by difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of bilateral, OTC and exchange-based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using annually updated fixed percentages based on the historical split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (for example APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

Basis of preparation

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £38.5 million incurred by Gas Domestic Supply in 2020, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas (2019: £35.7 million).
- Environmental and social obligation costs for Domestic Supply include ROCs, FIT, ECO and UK Capacity Market costs. Non-Domestic Supply includes the cost of LECs, ROCs, FIT and UK Capacity Market costs. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT, ROCs and UK Capacity Market costs are included within Electricity, and ECO is allocated between Electricity and Gas based on the relevant legislation. Environmental and social obligation costs for the Generation segment relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs for Generation include employee and maintenance costs.
- Other direct costs for Supply include brokers' costs and sales commissions when the costs have given rise directly to revenue, that is, producing a sale. They also include Elexon and Xoserve market participation and wider Smart metering programme costs.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt costs, costs to serve, IT, HR, finance, property, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers, which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges but excluding bad debt costs) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic). Bad debt costs are allocated between Electricity and Gas on the basis of actual bad debt cost by individual contract in the billing system (Domestic) and on the basis of revenues (Non-Domestic).

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT.
- For the Domestic Supply segment, customer numbers are stated based on the number of district meter point reference numbers (MPRNs) and meter point administration numbers (MPANs) in our billing system (for gas and electricity respectively), where it shows an active point of delivery and a meter installation. As a result, our customer numbers do not include those meter points where a meter may recently have been installed but the associated industry registration process has yet to complete, as the meter information will not be present in our billing system.
- For the Non-Domestic Supply segment, sites are based on the number of distinct MPRNs and MPANs in our billing system for gas and electricity respectively.

Transfer pricing for electricity, gas and generation licensees in accordance with paragraph 4(d)/19A.4(d)

There are no specific energy supply agreements between the Generation and Supply segments.

The Group continues to ensure transfer pricing methodologies are appropriate and up to date. In order to meet this requirement, the Group ensured all transfer pricing and cost allocation methodologies were internally reviewed, updated and collated in a central repository.

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2020 principally arises from the Group's interests in the entities listed on page 210.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our gross share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line-by-line within the relevant item of the CSS.

Exceptional items and certain re-measurements

Restructuring costs, impairment charges and pension charges that have been identified as exceptional items, and mark-to-market adjustments in the Centrica plc Annual Report and Accounts 2020, are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2020.

A reconciliation of the Segmental Statement revenue, EBIT and depreciation to the 2020 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraphs 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

Reconciliation to Centrica plc Annual Report and Accounts

The reconciliation refers to the segmental analysis of the 2020 Centrica plc Annual Report and Accounts in note 4.

Revenue (£m)

			Supply segment			
			Domestic		Non-Domestic	
		Generation segment	Electricity	Gas	Electricity	Gas
	Notes	2020	2020	2020	2020	2020
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]		Upstream	British Gas		Centrica Business Solutions	
Segment revenue		1,918.3	7,887.0		2,130.5	
Less non-UK and non-Generation/Supply	1	(1,455.5)	(1,408.1)		(255.2)	
Segment revenue after non-UK and non-Generation/Supply		462.8	6,478.9		1,875.3	
Reallocate British Gas Non-Domestic Supply element	2	–	(103.7)		103.7	
Reallocate Centrica Business Solutions Generation element	2	22.3	–		(22.3)	
Add Generation reported in Energy, Marketing & Trading	3	176.9	–		–	
Segment revenue after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy Marketing & Trading to Upstream		662.0	6,375.2		1,956.7	
Gas and Electricity allocation	4	–	3,181.9	3,193.3	1,528.7	428.0
Include share of JVs and associates	5	549.6	–	–	–	–
Exclude intra-segment revenues	6	(501.0)	–	–	–	–
Ofgem Consolidated Segmental Statement		**710.6**	**3,181.9**	**3,193.3**	**1,528.7**	**428.0**

EBIT (£m)

	Notes	Generation segment 2020	Domestic Electricity 2020	Domestic Gas 2020	Non-Domestic Electricity 2020	Non-Domestic Gas 2020
Centrica plc Annual Report and Accounts Segmental Analysis [(i)]						
Segment EBIT		90.2	281.5		(140.0)	
Less non-UK and non-Generation/Supply	1	(106.9)	(181.1)		86.3	
Segment EBIT after non-UK and non-Generation/Supply		(16.7)	100.4		(53.7)	
Reallocate British Gas Non-Domestic Supply element	2	–	11.4		(11.4)	
Reallocate Centrica Business Solutions Generation element	2	(0.1)	–		0.1	
Add Generation reported in Energy, Marketing & Trading	3	10.8	–		–	
Segment EBIT after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy, Marketing & Trading to Upstream		(6.0)	111.8		(65.0)	
Gas and Electricity allocation	4	–	15.6	96.2	(69.8)	4.8
Exclude share of JVs' and associates' interest and tax	5	32.7	–	–	–	–
Ofgem Consolidated Segmental Statement		**26.7**	**15.6**	**96.2**	**(69.8)**	**4.8**

Reconciliation to Centrica plc Annual Report and Accounts

Depreciation and amortisation (£m)

			Supply segment			
		Generation segment	Domestic		Non-Domestic	
			Electricity	Gas	Electricity	Gas
	Notes	2020	2020	2020	2020	2020
Centrica plc Annual Report and Accounts Segmental Analysis (i)		Upstream	British Gas		Centrica Business Solutions	
Segment depreciation and amortisation		(545.3)	(170.8)		(53.2)	
Less non-UK and non-Generation/Supply	1	545.3	73.3		29.3	
Segment depreciation and amortisation after non-UK and non-Generation/Supply		–	(97.5)		(23.9)	
Reallocate British Gas Non-Domestic Supply element	2	–	0.5		(0.5)	
Reallocate Centrica Business Solutions Generation element	2	(6.5)	–		6.5	
Add Generation reported in Energy, Marketing & Trading	3	(11.3)	–		–	
Segment depreciation and amortisation after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy, Marketing & Trading to Upstream		(17.8)	(97.0)		(17.9)	
Gas and Electricity allocation	4	–	(43.7)	(53.3)	(12.7)	(5.2)
Include share of JVs and associates	5	(141.3)	–	–	–	–
Ofgem Consolidated Segmental Statement		**(159.1)**	**(43.7)**	**(53.3)**	**(12.7)**	**(5.2)**

(i) The tables reconcile the Generation segment to Upstream, the Domestic Supply segment to British Gas and the Non-Domestic Supply segment to Centrica Business Solutions from note 4 to the 2020 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Notes:

1. British Gas includes Home Services and Solutions, Centrica Business Solutions includes Business Services and Solutions and Upstream includes Exploration and Production, which are non-licensed activities and have been deducted to reconcile these CSS numbers.
2. British Gas includes supply activity to certain companies fulfilling the Non-Domestic definition. Centrica Business Solutions includes generation activity from the Group's turbines, engines and battery assets.
3. Energy, Marketing and Trading includes Generation activity associated with the Spalding power station.
4. The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT) and Depreciation (including amortisation) as provided in note 4 of the Centrica plc Annual Report and Accounts 2020, has been split between Gas and Electricity.
5. £549.6 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS for Nuclear revenues. £56.6 million of EBIT in the Generation segment relates to profits from associates for Nuclear. Additionally, costs relating to the Group's share of joint ventures and associates: £82.5 million direct fuel costs, £230.3 million direct costs, £38.9 million indirect costs and £141.3 million depreciation and amortisation are included. Note also that financing costs and tax of £32.7 million are initially included in the Upstream segmental EBIT associated with nuclear. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2020 in notes 6 and 14.
6. £501.0 million of intra-segment revenues between the joint ventures and associates and the Generation segment (included in the £549.6 million of joint venture and associate revenues) are excluded from the CSS.

Shareholder Information

General enquiries

Centrica's share register is administered and maintained by Equiniti, our Registrar, whom you can contact directly if you have any questions about your shareholding which are not answered here or on our website. You can contact Equiniti using the following details:

Address: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, UK

Telephone: 0371 384 2985*

Outside the UK: +44 (0)121 415 7061

Textphone: 0371 384 2255*

Outside the UK: +44 (0)121 415 7028

Contact: help.shareview.co.uk

Website: equiniti.com

* Calls to an 03 number cost no more than a national rate call to an 01 or 02 number. Lines open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales.

When contacting Equiniti or registering via shareview.co.uk, you should have your shareholder reference number to hand. This can be found on your share certificate, dividend confirmation or any other correspondence you have received from Equiniti.

If you hold less than 2,500 shares you will be able to change your registered address or set up a dividend mandate instruction over the phone; however, for security reasons, if you hold more than 2,500 shares, you will need to put this in writing to Equiniti.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment at a convenient time. Details of this service can be found at shareview.co.uk.

American Depositary Receipt (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available on our website or please contact:

Regular mail delivery address: BNY Mellon Shareowner Services, PO Box 505000, Louisville, KY 20233-5000, USA

Overnight, certified, registered delivery address: BNY Mellon Shareowner Services, 462 South 4th Street, Suite 1600, Louisville, KY 40202, USA

Email: shrrelations@cpshareownerservices.com

Website: mybnymdr.com

Telephone: +1 888 269 2377 (toll-free in the US)

Outside the US: +1 201 680 6825

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website, centrica.com. Receiving communications and documents electronically saves your Company money and reduces our environmental impact. If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Accounts, on the day it is published. You will also receive alerts to let you know that you can cast your AGM vote online. You can manage your shareholding online by registering at shareview.co.uk, a free online platform provided by Equiniti, which allows you to:

- view information about your shareholding;
- have your dividend paid into your bank account;
- update your personal details; and
- appoint a proxy for the AGM.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Financial Services Limited. However, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and gives you:

- low cost share dealing rates (full details of which are available on centrica.com, together with dealing charges);
- quicker settlement periods for buying and selling shares; and
- no paper share certificates to lose.

centrica.com

The Shareholder Centre on our website contains a wide range of information including a dedicated investors section where you can find further details about shareholder services including:

- share price information;
- dividend history;
- telephone and internet share dealing;
- downloadable shareholder forms; and
- taxation.

This Annual Report and Accounts can also be viewed online by visiting centrica.com/ar20.

ShareGift

If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate them to ShareGift, a registered charity, which provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at sharegift.org or by calling +44 (0)20 7930 3737.

Additional Information – Explanatory Notes (Unaudited)

Definitions and reconciliation of adjusted performance measures

Centrica's 2020 consolidated Financial Statements include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not, however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted revenue, adjusted gross margin, adjusted operating profit, adjusted earnings and free cash flow have been defined and reconciled separately in notes 2, 4 and 10 to the Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

EBITDA

EBITDA is a business performance measure of operating profit, after adjusting for depreciation and amortisation. It provides a performance measure in its own right, and provides a bridge between the Income Statement and the Group's key cash metrics.

Year ended 31 December	Note	2020 £m	2019 £m	Change
Continuing group operating loss	I/S	**(362)**	(783)	
Exceptional items included within Group operating profit and certain re-measurements before taxation	7	**809**	1,433	
Share of (profits)/losses of joint ventures and associates, net of interest and taxation(i)	I/S	**(23)**	12	
Depreciation and impairments of PP&E(i)	4	**659**	851	
Amortisation, write-downs and impairments of intangibles(i)	4	**253**	265	
Continuing EBITDA		**1,336**	1,778	(25%)
Discontinued operations EBITDA		**299**	341	
Group total EBITDA		**1,635**	2,119	(23%)

(i) These line items relate to business performance only.

The following tables provide additional information to help readers when reconciling between different parts of the consolidated Financial Statements, and the Group Cash Flow Statement.

Payments relating to exceptional charges in operating costs

Year ended 31 December	Notes	2020 £m	2019 £m
Restructuring costs incurred during the year and utilisation of prior year liabilities		**117**	249
Sales/purchase contract loss provision and other exceptional costs		**3**	15
Payments relating to exceptional charges in continuing operating costs	C/F	**120**	264

Depreciation, amortisation, write-downs, impairments and write-backs

	Notes	2020 £m	2019 (restated)(i) £m
PP&E depreciation	13	**672**	807
PP&E impairments	13	**482**	569
Joint venture impairments	14	**483**	372
Intangible write-down	15	**24**	178
Intangible amortisation	15	**258**	266
Intangible impairments	15	**353**	107
Group total cash flow from depreciation, amortisation, write-downs, impairments and write-backs		**2,272**	2,299
Less cash flow from discontinued operations depreciation, amortisation, write-downs, impairments and write-backs in:			
Business Performance	4	**(47)**	(90)
Exceptional items	7	**(8)**	(66)
Cash flow depreciation, amortisation, write-downs, impairments and write-backs (continuing)	C/F	**2,217**	2,143
Continuing:			
Exceptional item impairments	7	**(1,305)**	(1,027)
Business Performance PP&E depreciation	4	**(657)**	(778)
Business Performance PP&E impairments	4	**(2)**	(73)
Business Performance intangibles amortisation	4	**(226)**	(205)
Business Performance intangibles impairments and write-downs	4	**(27)**	(60)

Definitions and reconciliation of adjusted performance measures

Reconciliation in receivables and payables to Group Cash Flow Statement

Year ended 31 December	Notes	2020 £m	2019 £m
Receivables opening balance	B/S	**4,993**	5,662
Less receivables closing balance	B/S	**(2,946)**	(4,993)
Payables opening balance	B/S	**(5,685)**	(6,398)
Less payables closing balance	B/S	**3,836**	5,685
Net reduction in receivables and payables		**198**	(44)
Non-cash changes, and other reconciling items:			
Transferred to held for sale and business disposals		**(281)**	2
Movement related to discontinued operations prior to transfer to held for sale		**(48)**	(75)
Movement in capital creditors		**61**	18
Movement in ROCS and emission certificate intangible assets		**(92)**	106
Other movements (including foreign exchange movements)		**(46)**	51
Non-cash charges, and other reconciling items		**(406)**	102
Movement in trade and other receivables, trade and other payables and contract related assets relating to business performance	C/F	**(208)**	58

Pensions

Year ended 31 December	Notes	2020 £m	2019 £m
Cash contributions to defined benefit schemes in excess of service cost income statement charge	C/F	**(42)**	(493)
Employer contributions	22	**241**	320
Contributions by employer in respect of employee salary sacrifice arrangements	22	**28**	29
Total current service cost	22	**(107)**	(116)
Past service credit	22	**–**	260
Termination benefit	22	**(120)**	–

Discontinued operations free cash flow

Year ended 31 December	Notes	2020 £m	2019 £m
Discontinued operations free cash flow	4	**376**	494
Movement in variation margin and collateral		**45**	(66)
		421	428
Net cash flow from discontinued operating activities	C/F	**443**	280
Net cash flow from discontinued investing activities	C/F	**(22)**	148
		421	428

Other Information

People and Planet – Performance Measures

We engaged DNV GL Business Assurance Services UK Limited (DNV) to undertake a limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. DNV has provided an unqualified opinion in relation to four KPIs that are identified with the symbol '†' and feature on pages 30 and 224. It is important to read the responsible business information in the Annual Report and Accounts 2020 in the context of DNV's full limited assurance statement and Centrica's Basis of Reporting, which are available at centrica.com/assurance.

Read more about our People & Planet Plan on Pages 28 to 33

Read more about our wider non-financial performance at centrica.com/datacentre

Read more about our SASB disclosure at centrica.com/sustainability

Progress against our People & Planet Plan

Key: Progress against Ambitions ▲ On track ▼ Behind

Goal	Milestone	2020 Progress[i]	
Create an engaged team that reflects the full diversity of the communities we serve by 2030 – this means all company and senior leaders to be: • 47% female • 14% ethnic minority • 15% disability • 3% LGBTQ+ • 3% ex-service	All company and senior leaders to be by 2022: • 30% female • 13% ethnic minority • 4% disability • 3% LGBTQ+ • 3% ex-service	**All company[ii]:** • **28% female** ▼ • **13% ethnic minority** ▲ • **1% disability** ▲ • **1% LGBTQ+** ▲ • **1% ex-service** ▲	**Senior leadership[ii]:** • **28% female** ▼ • **13% ethnic minority** ▲ • **1% disability** ▲ • **1% LGBTQ+** ▲ • **1% ex-service** ▲
Recruit 3,500 apprentices and provide career development opportunities for under-represented groups by 2030 (baseline: 2021)	1,000 apprentices by 2022	–[iii]	
Inspire colleagues to give 100,000 days to build inclusive communities by 2030 (baseline: 2019)	20,000 days by 2022	**10,548 days** ▲	
Help our customers be net zero by 2050[iv] (baseline: 2019)	28% carbon intensity reduction by 2030	**18% reduction** ▲	
Be a net zero business by 2045[v] (baseline: 2019)	40% carbon reduction by 2034	**18% reduction** ▲	

(i) Our People & Planet Plan was introduced in 2021 to accelerate action in areas where we can make the greatest difference. The Plan builds on our 2030 Responsible Business Ambitions and where our outgoing goals directly support our new goals, we have provided 2019 performance to transparently demonstrate progress: 29% female representation in senior leadership, 10% ethnic minority representation in senior leadership, 29% female representation across all company, 12% ethnic minority representation across all company, 362 young people from under-represented groups supported with skills, 2,452 volunteering days, 3.9% customer carbon emission reduction and 39% internal carbon footprint reduction since 2015. More detail on our outgoing climate goals are on page 224.

(ii) Ethnicity is based on 65% of colleagues in 2020 and 63% of colleagues in 2019 who voluntarily disclosed whether they are from a Black, Asian, Mixed/Multiple or other ethnic group across the UK and North America. Senior leaders includes colleagues above general management and spans senior managers, the Centrica Leadership Team and the Board.

(iii) Performance against the goal will be reported in full from 2021. This is because our apprenticeship goal is a new focus for 2021 onwards, while many wider training opportunities were paused in 2020 due to COVID-19.

(iv) Carbon intensity of our customers' overall energy use including electricity and gas with a baseline normalised for divestments. Target aligned to the Paris Accord and based on science, corresponding to a well below 2°C pathway initially and 1.5°C by mid-century.

(v) Scope 1 (direct) and 2 (indirect) greenhouse gas emissions based on operator boundary and normalised for acquisitions and divestments, with target aligned to the Paris Accord and based on science. This differs from total carbon emissions reported on page 224 which includes all emissions at time of ownership.

Progress against our Foundations

People

Metric	2020	2019	What's next
Customers			
Brand net promoter score (NPS)[i]	**+13.8[ii]**	+15.1[iii]	Continue to deliver new services and solutions that help our customers live sustainably, simply and affordably
Complaints per 100,000 customers[i]	**2,569[iv]**	3,429[v]	Maintain focus on driving down complaints by improving customer service
Vulnerable customers helped through the UK Warm Home Discount Scheme	**570,304**	618,881	Ensure customers in vulnerable circumstances receive the help they need to stay warm, safe and debt-free
Customer safety incident frequency rate per 1,000,000 jobs completed	**3.85**	2.85	Consistently follow existing controls as well as encourage customers to maintain distance from work areas

(i) Measure linked to Executive Director remuneration arrangements. See pages 70 and 73 for more information.
(ii) Aggregated scores across British Gas Home +8, Direct Energy Home +32, Bord Gáis Energy -5, Hive +40, British Gas Business -1 and Direct Energy Business +39, weighted by customer numbers.
(iii) Business divisions have been updated to better align with how we now operate. Aggregated scores across British Gas Home and Dyno +8 (previously combined under the outgoing UK Home division reported prior to 2020), Direct Energy Home +29, Bord Gáis Energy +23, Hive +39, British Gas Business +1 and Direct Energy Business +32, weighted by customer numbers.
(iv) Aggregated scores across British Gas Energy Supply 3,616 as reported to Ofgem, British Gas Home Services 2,234 as reported to the FCA, Bord Gáis Energy 5 as reported to the Commission for Regulation of Utilities, Water and Energy (CRU), Direct Energy Home Energy 42 as reported by various regulatory bodies, British Gas Business 3,369 as reported to Ofgem and Direct Energy Business 17 as reported by various regulatory bodies and weighted by customer accounts.
(v) Aggregated scores across British Gas Home Energy Supply 5,182 as reported to Ofgem, British Gas Home Services 2,388 as reported to the FCA, Bord Gáis Energy 4 as reported to the Commission for Regulation of Utilities, Water and Energy (CRU), Direct Energy Home Energy 65 as reported by various regulatory bodies, British Gas Business 3,825 as reported to Ofgem and Direct Energy Business 27 as reported by various regulatory bodies and weighted by customer accounts.

Metric	2020	2019	What's next
Colleagues			
Employee engagement[i][ii]	**42% favourable**	43% favourable	Endeavour to improve employee experience which includes connecting colleagues with our purpose and enabling them to perform at their best
Gender pay gap[iii]	**21% mean** **35% median**	14% mean 30% median	Drive action through our People & Planet Plan to create an engaged team that reflects the full diversity of the communities we serve
Gender bonus gap[iv]	**26% mean** **5% median**	29% mean 23% median	
Ethnicity pay gap[iii][v]	**8% mean** **14% median**	-[vi]	
Ethnicity bonus gap[iv][v]	**14% mean** **16% median**	-[vi]	
Retention	**85%**	80%	Support employees through restructuring and improve retention by enhancing employee experience and talent development
Absence per full-time employee[vii]	**15 days**	14 days	Strive to reduce absence through good management practices alongside proactive support and education on the importance of overall health, and how physical and mental health are connected
Total recordable injury frequency rate (TRIFR) per 200,000 hours worked[i]	**1.03**	1.06	Drive down TRIFR and LTIFR by keeping safety front-of-mind and reinforcing a strong safety culture while adhering to existing controls and monitoring
Lost time incident frequency rate (LTIFR) per 200,000 hours worked	**0.72**	0.58	
Process safety incident frequency rate (Tier 1 and 2) per 200,000 hours worked[i]	**0.00**	0.08	Continue to ensure robust operational controls and operator competencies, timely safety-critical maintenance programmes and effective performance management
Significant process safety events (Tier 1)	**0**	0	
Fatalities	**0**	0	Maintain zero fatalities

(i) Measure linked to Executive Director remuneration arrangements. See pages 70 and 73 for more information.
(ii) Measured through responses to annual survey asking employees to rate their level of advocacy, pride, loyalty and satisfaction.
(iii) Based on hourly rates of pay for all employees at full pay (including bonus and allowances) at the snapshot dates of 5 April 2018 and 2019. Read our Gender and Ethnicity Pay Statement to find out more at centrica.com/paygap.
(iv) Includes anyone receiving a bonus during the 12-month period leading up to the pay gap snapshot date and who are still employed on the snapshot date.
(v) Based on 65% of colleagues who confirmed whether they are from a Black, Asian, Mixed/Multiple or other ethnic group.
(vi) We voluntarily published our ethnicity pay gap for the first time in 2020 and so there is no 2019 performance available.
(vii) Relates to absence from sickness rather than wider forms of absence such as bereavement.

Metric	2020	2019	What's next
Communities			
Total community contributions	**£219.7 million**(i)	£167.0 million(ii)	Help create more inclusive communities and grow colleague engagement via our flagship charity partnerships with the Trussell Trust, Carers UK, British Gas Energy Trust and Focus Ireland
Average sustainability risk score (score out of 100)(iii)	**54 (low risk)**	59 (low risk)	Continue to monitor and raise standards to reduce risk across our supply chain, particularly among higher risk strategic suppliers
Ethnical site inspections undertaken for higher risk suppliers	**5**	9	
Colleagues committed to Our Code	**96%**	82%	Ensure all colleagues uphold Our Code as part of our commitment to doing the right thing and acting with integrity

(i) Comprises £216.4 million in mandatory and £0.5 million in voluntary contributions which largely support vulnerable customers, alongside £2.8 million in charitable donations which includes £0.3 million in contributions from third parties such as employee fundraising.
(ii) Restated due to availability of improved data. Comprises £164.0 million in mandatory and £0.3 million in voluntary contributions alongside £2.8 million in charitable donations which includes £0.5 million in contributions from third parties such as employee fundraising. Aggregated component values differ from total due to rounding.
(iii) A score near 100 is low risk. High-risk companies have limited or no tangible actions on sustainability, medium-risk companies take partial tangible action on selected sustainability issues, low-risk companies have a structured sustainability approach with policies and action to manage major sustainability issues while lowest-risk companies have strong sustainability credentials and reporting embedded across their business.

Planet

Metric	2020	2019	What's next
Carbon			
Total carbon emissions (Scope 1 and 2)(i)	**1,925,747tCO_2e†**	2,512,141tCO_2e(ii)	Measure and reduce our emissions and those of our customers through our People & Planet Plan, whereby we aim to be a net zero business by 2045 and help our customers be net zero by 2050
Scope 1 emissions	**1,885,449tCO_2e†**	2,474,794tCO_2e (ii)	
Scope 2 emissions	**40,299tCO_2e†**	37,347tCO_2e(iii)	
Scope 3 emissions(iv)	**115,828,220tCO_2e**	127,209,632tCO_2e	
Total carbon intensity by revenue	**92tCO_2e/£m(v)**	111tCO_2e/£m(vi) (vii)	Continue to analyse the impact of our strategy on decoupling carbon from value creation
Annual customer carbon savings from measures installed	**4,419,549tCO_2e**	3,045,458tCO_2e(vi)	Deliver services and solutions that help our customers achieve net zero by 2050
Total energy use	**8,331,421,261kWh† (viii)**	10,095,173,370kWh(ix)	Remain focused on energy efficiency as we strive to be a net zero business by 2045
Help our customers reduce emissions by 25% by direct (3%) and indirect action (baseline: 2015)	**4.9%**	3.9%	Our outgoing Responsible Business Ambitions were all on track by the end of 2020 – these goals have since been superseded by our People & Planet Plan which amplifies our commitment to help our customers be net zero by 2050 and be a net zero business by 2045
Deliver 7GW of flexible, distributed and low carbon technologies as well as provide system access and optimisation services	**2.6GW**	2.6GW(ii)	
Reduce our internal carbon footprint by 35% by 2025 and be net zero by 2050 (baseline: 2015)	**58% reduction (38,368tCO_2e)**	39% reduction (55,145tCO_2e)(iii)	
Water, waste and non-compliance			
Total water use	**306,361m³**	516,836m³	Effectively monitor, manage and reduce our water use and waste production, as well as our incidence of environmental non-compliance
Total waste generated	**27,299 tonnes**	36,814 tonnes(vi)	
Environmental non-compliance(x)	**9**	42	

† Included in DNV's limited assurance scope referenced on page 222.
(i) Comprises Scope 1 and Scope 2 emissions as defined by the Greenhouse Gas Protocol.
(ii) Restated due to availability of improved data. Previous figures included in PwC's limited assurance scope for the 2019 Annual Report were: Total carbon emissions 2,283,514tCO_2e, Scope 1 emissions 2,246,167tCO_2e, Scope 2 emissions 37,347tCO_2e and Flexible capacity 2.7GW. See centrica.com/responsibilitydownloads to view PwC's assurance statement and Centrica's Basis of Reporting.
(iii) Included in PwC's limited assurance scope for the 2019 Annual Report.
(iv) Includes emissions associated with gas and power sold to customers, purchased goods and services alongside business travel and commuting which was expanded to include emissions from colleagues working from home during COVID-19. All emissions are calculated in line with the methodologies set out by the Greenhouse Gas Protocol's technical guidance, apart from working from home emissions which are based on methodology set out in EcoAct's homeworking emissions whitepaper.
(v) Comprises UK 85tCO_2e/£m and non-UK carbon intensity by revenue 99tCO_2e/£m. Total is a weighted average of component parts.
(vi) Restated due to availability of improved data.
(vii) Comprises UK 116tCO_2e/£m and non-UK carbon intensity by revenue 107tCO_2e/£m. Total is a weighted average of component parts.
(viii) Comprises UK & Offshore 2,678,890,009kWh and non-UK energy use 5,652,531,252kWh.
(ix) Comprises UK & Offshore 3,130,631,079kWh and Non-UK energy use 6,964,542,291kWh.
(x) Includes breaches of environmental authorisation including permit, licence and consent coupled with wider environmental legislation where we are either required to notify the regulator or where an authority or regulator is involved. The majority of incidents relate to offshore activities.

Glossary

$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
Acas	The Advisory, Conciliation and Arbitration Service is an independent public body that receives funding from the UK Government to provide employees and employers with free impartial advice on workplace rights and to help resolve disputes
AGM	Annual General Meeting
AIP	Annual Incentive Plan
bcf	Billion cubic feet
CHP	Combined heat and power
CO_2e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO_2e (carbon dioxide equivalent)
CPI	Consumer Price Index
CSS	Consolidated Segmental Statement
CUPS DB	Centrica Unfunded Pension Scheme defined benefit
CUPS DC	Centrica Unfunded Pension Scheme defined contribution
Data analytics	The process of examining data sets to draw conclusions and insights about the information they contain
DEEPAC	Direct Energy Employee Political Action Committee
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBT	Employee Benefit Trust
EP	Economic profit
EPS	Earnings per share
ESG	Environmental, Social & Governance
EU	European Union
EU ETS	European Union Emissions Trading Scheme
FCA	Financial Conduct Authority
FCF	Free cash flow
FRS	Financial Reporting Standards
GDPR	General Data Protection Regulation
GMB	Trade union
GPS	Global Positioning System
GW	Gigawatt
GWh	Gigawatt hours
HSES	Health, Safety, and Environmental Services
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KPI	Key performance indicators
kWh	Kilowatt hour
LGBTQ+	Lesbian, Gay, Bisexual, and Trans plus. The ‘plus’ is inclusive of other groups such as asexual, intersex and questioning
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate
mmboe	Million barrels of oil equivalent
MThms	Million therms
MSA	Modern Slavery Act 2015
Net zero	The point at which there is either no carbon dioxide (CO_2) being emitted or where any CO_2 emitted is removed from the atmosphere
NGO	Non-governmental organisation
NPS	Net promoter score
Ofgem	The government regulator for gas and electricity markets in Great Britain
Paris Accord	A global agreement to keep temperature rise well below 2°C above pre-industrial levels, and pursue efforts to limit the increase to 1.5°C
PPE	Personal Protective Equipment
PP&E	Property, Plant and Equipment
ppt	Percentage point
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRA	Prudential Regulatory Authority
PRT	Petroleum Revenue Tax
PWR	Pressurised water reactor
RBD	Reconciliation by difference
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
SASB	Sustainability Accounting Standards Board
SAYE	Save As You Earn
SESC	Safety, Environment and Sustainability Committee (formerly SHESEC)
SHESEC	Safety, Health, Environment, Security and Ethics Committee
SIP	Share Incentive Plan
tCO_2e	Tonnes of carbon dioxide equivalent
T&Cs	Terms and Conditions
TCFD	Task Force on Climate-related Financial Disclosures
The Company	Centrica plc
The Group	Centrica plc and all of its subsidiary entities
TRIFR	Total recordable injury frequency rate
TSR	Total shareholder return
TWh	Terawatt hour
UAOCF	Underlying adjusted operating cash flow
VIU	Value in use
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

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Disclaimer

This Annual Report and Accounts contains certain forward-looking statements. The forward-looking statements appear in a number of places throughout this Annual Report and Accounts and include statements regarding the current intentions, beliefs or expectations of the Directors, the Company and/or the Group concerning, among other things, the financial condition, prospects, growth, strategies, results, operations and businesses of the Company.

By their nature, these forward-looking statements are subject to risk and uncertainties because they relate to, and may be impacted by, events and circumstances that will occur in the future which are beyond the Company’s ability to control or estimate precisely. There are a number of factors that could cause the Company’s actual future results, financial condition, performance, results, operations and businesses to differ materially from those expressed or implied by these forward-looking statements. Such forward-looking statements should be considered in the light of all relevant factors, including those set out in the ‘Our Principal Risks and Uncertainties’ section of the Strategic Report. These forward-looking statements are not guarantees of the Company’s future performance and undue reliance should not be placed on them.

Neither the Company nor any other person undertakes any obligation to update or revise any of these forward-looking statements to reflect any changes in events, conditions or circumstances on which any such forward-looking statement is based, save in respect of any requirement under applicable law or regulation.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.