Preliminary results for the year ended 31 December 2020

CHRIS O'SHEA, GROUP CHIEF EXECUTIVE

"We started a major transformation of the Company during 2020. Against the continuing uncertain backdrop caused by the Covid-19 crisis, I am truly grateful for the efforts of all my colleagues, as we kept our customers warm, safe and supplied with energy and services and protected the business.

We have made a good start to the turnaround of Centrica, with the sale of Direct Energy now complete and our significant Group restructure on track. However, our journey to transform has only just started, as we seek to restore shareholder value by improving customer experience, retention and employee engagement, while maintaining a strong balance sheet. It won't be easy, but I am confident we have the people, the brands and the market positions to deliver a successful turnaround in the coming years."

TURNAROUND OF CENTRICA STARTED

- Major transformation of Centrica underway.
- Completion of Direct Energy sale in January 2021 strengthens the balance sheet and allows an increased focus on core UK and Ireland activities.
- Significant restructure to simplify and modernise the Group on track.
- Increased focus on fixing the basics. Customer service levels broadly maintained. Customer numbers broadly unchanged over H2 compared to a 2% drop in H1.

RESILIENT 2020 FINANCIAL PERFORMANCE

- Group adjusted basic EPS of 6.5p, down 11%.
- Adjusted operating profit from continuing operations (excluding Direct Energy) down 31% to £447m and adjusted basic EPS from continuing operations of 2.8p, down 35%.
    - Reflects negative impacts of Covid-19, warmer weather and low commodity prices.
    - Partly offset by efficiency benefits, a strong trading and optimisation result and lower depreciation.
- Total exceptional charges in Group operating profit from continuing operations of £1,593m, including restructuring and pension strain costs of £274m and impairments of £1,319m.
- From continuing operations, statutory operating loss of £362m (2019: £783m loss), statutory EPS loss of 4.7p (2019: 16.8p loss), statutory net cash flow from operating activities down 1% to £957m.

BALANCE SHEET STRENGTHENED

- Total Group free cash flow up 10% to £1,061m and net debt down £0.4bn to £2.8bn, reflecting a tight focus on cash expenditure and prompt and prudent actions taken in response to Covid-19.
- IAS19 pension deficit of £601m and technical pension deficit of £1.9bn on a roll-forward basis at 31 December 2020. Next triennial pensions valuation scheduled for 31 March 2021.

CREATING A MORE SUSTAINABLE AND PROFITABLE COMPANY

- Significant uncertainties continue into 2021. No specific earnings or cash flow guidance provided.
- Strengthened balance sheet and continued tight focus on cash flow generation and expenditure leave Centrica well placed to navigate future uncertainties.
- Focus remains on adding shareholder value through simplifying and modernising the Group and improving the long-term quality, sustainability and level of earnings and cash flow.
- Intention remains to sell Spirit Energy. Nuclear divestment process remains paused.
- New climate change ambitions for Centrica to become net zero by 2045 and help our customers be net zero by 2050 are aligned to potential growth opportunities.
- Intend to set out longer-term strategy in H2 2021.

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FINANCIAL SUMMARY

Year ended 31 December	2020	2019	Change
From continuing and discontinued operations [1]			
EBITDA	**£1,635m**	£2,119m	(23%)
Group adjusted operating profit	**£699m**	£901m	(22%)
Group adjusted basic earnings per share (EPS)	**6.5p**	7.3p	(11%)
Full year dividend per share	**-**	1.5p	nm
Group free cash flow	**£1,061m**	£966m	10%
Group net debt	**£2,769m**	£3,181m	(13%)
Group net debt (including margin cash)	**£2,998m**	£3,507m	(15%)
Statutory operating profit / (loss)	**£52m**	(£849m)	nm
Basic earnings per share	**0.7p**	(17.8p)	nm
Statutory net cash flow from operating activities	**£1,400m**	£1,250m	12%
From continuing operations			
EBITDA	**£1,336m**	£1,778m	(25%)
Adjusted operating profit	**£447m**	£650m	(31%)
Adjusted basic earnings per share	**2.8p**	4.3p	(35%)
Free cash flow	**£685m**	£472m	45%
Statutory operating (loss)	**(£362m)**	(£783m)	(54%)
Exceptional items included in statutory operating (loss)	**(£1,593m)**	(£1,123m)	42%
Basic earnings per share	**(4.7p)**	(16.8p)	(72%)
Statutory net cash flow from operating activities	**£957m**	£970m	(1%)

See notes 2, 5 and 10 to the Financial Statements and pages 75 to 77 for an explanation of the use of adjusted performance measures.

1. Includes Direct Energy which is now classified in discontinued operations. See note 5 for more information on segmental operating profit and free cash flow.

GROUP PERFORMANCE INDICATORS

Year ended 31 December	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.03**	1.06	(3%)
Total residential customers ('000) [1]	**9,217**	9,440	(2%)
Group Brand NPS	**14**	15	(1pt)
Group direct headcount	**23,846**	26,932	(11%)
Group employee engagement (%)	**42%**	43%	(1ppt)

1. Includes British Gas Energy, British Gas Services and Bord Gáis Energy. Excludes Direct Energy.

INVESTOR PRESENTATION

A pre-recorded results presentation will be available on Centrica.com at 8am GMT on 25 February 2021 and Centrica will host a conference call for institutional investors and analysts at 10.30am GMT on 25 February 2021. To register for the call please visit:
https://webcasts.centrica.com/centrica112/vip_connect

If you would like to join in listen only mode, please register at:
https://webcasts.centrica.com/centrica112

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Group Overview

HELPING COLLEAGUES, CUSTOMERS AND COMMUNITIES DURING COVID-19

- Centrica was significantly impacted by the Covid-19 pandemic during the year. However, colleagues responded with incredible commitment and dedication, as we ensured the continuity of the supply of gas and electricity and the provision of essential energy services to homes and businesses, while following all advice from governments and relevant health authorities.

Looking after our colleagues

- Looking after our colleagues to ensure they can continue to offer our customers the level of service they demand was, and remains, a key focus.
- Our service engineers continued carrying out essential work such as boiler breakdowns during lockdown periods, as we provided them with appropriate personal protective equipment.
- We were also able to provide our customer agents with all the necessary equipment to work from home, with customer service levels holding up relatively well.
- We committed to find flexible working options for parents and carers to support them balance work with their other responsibilities.
- Our commitment to offer mental health and wellbeing support to colleagues has been more important than ever, with a variety of options available to them to get any help they may need.

Being there for customers

- We remained available to all our customers, while prioritising those who are vulnerable and needed additional support and those without heating or hot water. Throughout the year we regularly reviewed which services we could carry out safely.
- In addition, over 80,000 of British Gas' most vulnerable customers had additional help in the year, through advance credit for prepayment customers or deferred payments for credit customers.

Supporting our communities

- We also continued to help the communities we serve. Through our partnership with the Trussell Trust in the UK more than 3,000 British Gas engineers volunteered to deliver from foodbanks to help get food to people who need it most. Our engineers volunteered over 58,000 hours and have now delivered the equivalent of over 4 million meals across the UK.
- We helped fund extended helpline hours for Carers UK, with the volume of carers contacting their national helpline having increased by 60% in the first few weeks of the pandemic.
- We also partnered with the Sagesse charity in Alberta to promote the organisation's 'REAL Talk' campaign focusing on recognising signs of domestic violence.

SIGNIFICANT GROUP RESTRUCTURE ON TRACK

Creating a simpler, leaner, more modern Company

- In June 2020, we announced plans for a significant restructure designed to create a simpler, leaner Group focused on delivering for our customers. This included a proposed new organisational design, and the start of a consultation process to simplify terms and conditions for colleagues in the UK.
- These changes will help to simplify and modernise the Group and allow us to put customers at the heart of everything we do. This will provide us with the platform from which we will continue to invest in transforming our business, to improve competitiveness and enable growth.

Restructure expected to be largely completed in 2021

- The reorganisation was expected to lead to a total reduction of around 5,000 roles across the Group when compared to the start of 2020, with around 1,000 of the reduction expected to have come from roles in Direct Energy. Over half of the reduction is expected to come from management roles.

- The expected cost to complete this restructuring has largely been provided for in the 2020 full year exceptional charge of £274m, with the cash expenditure expected to occur over 2020 and 2021.
- These changes will result in a more competitive cost structure, in particular in our UK energy supply and services businesses, and an improved customer experience to provide a platform for growth. The restructure is on track:
  - The number of organisational layers has been reduced from eleven to seven, creating a flatter, less bureaucratic organisation, which is closer to and focused on the customer.
  - The number of roles at the three most senior levels of the organisation has been reduced by around half since the restructure was announced.
  - The total number of colleagues in customer-facing roles was significantly higher at the end of 2020 compared to the end of 2019.
  - Group direct headcount excluding Direct Energy was over 3,000 lower at the end of 2020 than at the end of 2019, with the remaining approximately 1,000 role reductions expected to take place in 2021.
  - The cost per customer in British Gas Energy was £106 in 2020, down £5 compared to 2019.
- Within British Gas, we are now utilising a new low-cost ‘software as a service’ third party platform for energy only customers in order to compete more effectively with challenger brands. We currently have around 36,000 residential customers on this platform and will look to migrate residential and smaller business customers to it over time. This is expected to result in additional operating costs. However, we would also expect to reduce expenditure on the legacy IT system as we migrate customers onto the new platform.

A more flexible workforce

- In addition to the proposed new organisational design, the company consulted to simplify colleague terms and conditions in the UK over the second half of 2020. Centrica has had over 80 different employee contracts, each with multiple variants, with many of the agreements dating back over 35 years. We need to modernise these to enable us to best serve the changing expectations of today’s customers while retaining the quality of our service.
- We have seen industrial action from a portion of our UK services engineer base in the first couple of months of 2021. We have had contingency plans in place and operationally have handled the situation relatively well, prioritising emergency visits and vulnerable customers. In total, over 80% of colleagues have now accepted new terms and we will continue to engage with all colleagues.

DIRECT ENERGY SALE FURTHER SIMPLIFIES THE GROUP

- We announced on 24 July 2020 that we had entered into an agreement to sell our North American business, Direct Energy, to NRG Energy for $3.625bn in cash, on a debt free, cash free basis. Having hedged the currency exposure at $1.32, net cash proceeds were £2.7bn after transaction costs.
- Having received a highly compelling unsolicited offer to acquire Direct Energy, we entered into a limited period of exclusive negotiations with NRG in May to explore further the basis for a transaction.
- The transaction resulted in an attractive price for Direct Energy, representing a multiple of 7.9x 2019 Underlying Adjusted EBITDA of $457 million and completed on 5 January 2021.
- The transaction enables Centrica to simplify further its business, which alongside the significant restructure will create a simpler, leaner Company, focused on its core markets of the UK and Ireland.
- It also increases the long-term strength of the Group’s balance sheet, with net cash proceeds to be used to reduce net debt and make a contribution to the Group’s defined benefit pension schemes.
- In addition, it will result in a more stable financial profile for the Group, with an increased proportion of cash flows generated from contracted services, and removal of volatility inherent within Direct Energy.

RESILIENT OPERATIONAL, COMMERCIAL AND FINANCIAL PERFORMANCE

British Gas customer satisfaction levels maintained and customer numbers stable in H2

British Gas Energy	2020	2019	Change
Energy customers ('000)	**6,916**	7,080	(2%)
Cost per energy customer (£) [1]	**£106**	£111	(5%)
Energy complaints per customer (%) [2]	**6.1%**	8.6%	(2.5ppt)
Energy Touchpoint NPS [3]	**9**	11	(2pt)
Adjusted operating profit (£m) [1]	**80**	124	(35%)

1. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.
2. A complaint is an expression of dissatisfaction, in line with submissions made to Ofgem.
3. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following contact with an Energy call centre.

- British Gas Energy customers fell by 164,000 or 2%, with nearly all the net losses coming in the first half of the year.
  - In the first half, some core sales channels were unavailable during Covid-19 related lockdowns. We also limited our activity in the fiercely competitive price comparison website market, as some competitors priced at negative gross margins and falling commodity prices helped unhedged smaller competitors.
  - The number of customers was broadly unchanged over the second half. This includes the impact of the acquisition of around 85,000 Robin Hood Energy customers in September and an increased focus on customer retention.
- Energy Touchpoint NPS reduced, reflecting the impact of longer average call waiting times at points in the year, as we prioritised emergency calls and contact centre colleagues moved to home working.
- Total call volumes fell, as we encouraged our customers to interact with us online to ensure we could prioritise calls from more vulnerable customers. This in turn reduced complaints.
- Our continued investment in digital platforms meant we were able to handle the significant increase of digital contacts, with 64% of all transactions completed online in 2020 compared to 55% in 2019.
- British Gas Energy adjusted operating profit reduced by 35% to £80m.
  - The reduction includes a roughly £40m impact due to warmer weather impacting energy consumption, the non-recurrence of a benefit in 2019 of approximately £30m from the renegotiation of a smart metering contract and the impact of the reduction in customer numbers and a changed customer mix.
  - It also includes a net negative Covid-19 impact, with slightly higher domestic consumption more than offset by higher balancing charges and an increase of around £40m in the bad debt charge.
  - These negative impacts were partially offset by cost efficiencies and a benefit from the non-repeat of the one-off default tariff cap related cost of £70m in Q1 2019.

British Gas Services & Solutions	2020	2019	Change
Services customers ('000)	**3,563**	3,685	(3%)
Revenue per services customer (£)	**£359**	£388	(7%)
Cost per services customer (£) [1]	**£299**	£331	(10%)
Install and on-demand jobs ('000)	**283**	337	(16%)
Services complaints per customer (%) [2]	**5.7%**	6.0%	(0.3ppt)
Services Engineer NPS [3]	**66**	60	6pt
Adjusted operating profit (£m)	**201**	180	12%

1. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.
2. A complaint is any oral or written expression of dissatisfaction.
3. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following an engineer visit.

- British Gas services customers fell 122,000, or 3%. Nearly all of the net losses came in the first half of the year, as a reduced number of customer visits during the lockdown period resulted in lower sales opportunities. However, sales picked up in the second half and customer retention overall for core insurance products remained in line with previous years. The number of services products per customer increased from 2.14 to 2.22 over the year and reflecting this the number of customer accounts ended the year higher than at the start.
- The total number of installs and on demand jobs for the full year was down 16% compared to 2019, although were only down by 4% in the second half of the year as lockdown restrictions were eased. Within this, boiler installations were down 27%, with partial recovery in the second half of the year as they were 15% lower than in 2019.
- Reflecting this reduction in higher revenue installation jobs, revenue per services customer fell by 7% to £359. However, this change in mix also led to a lower cost per customer and when combined with the impact of efficiencies, the cost per customer reduced by 10% to £299.
- We continued to fulfil over 97% of UK services essential breakdown appointments on the scheduled day despite the impact of the Covid-19 pandemic. Reflecting this, services complaints were slightly down year-on-year despite the impacts of Covid-19, and engineer NPS increased with customers indicating greater appreciation for the care and work carried out during the pandemic.
- British Gas Services & Solutions includes the activities previously in Centrica Home Solutions. The number of Home Solutions active customers increased by 13% in the year to 1,357,000.
- British Gas Services and Solutions adjusted operating profit increased by 12% to £201m. Services profit increased slightly to £256m (2019: £252m), with the benefit of cost efficiencies offsetting the impacts of Covid-19 in the year, including from lower boiler installations. The loss in Solutions reduced to £55m (2019: loss of £72m), largely driven by cost efficiency measures and the decision to focus activity on the UK and Ireland and exit all other markets.

Customer service and retention improvements in Bord Gáis Energy

Bord Gáis Energy	**2020**	2019	Change
Customers (‘000)	**483**	500	(3%)
Complaints per customer (%) [1]	**1.8%**	2.2%	(0.4ppt)
Journey NPS [2]	**38**	31	7pt
Adjusted operating profit (£m) [3]	**42**	50	(16%)

1. Total consumer complaints of all types.
2. Weighted NPS for the main customer interaction channels.
3. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.

- Bord Gáis Energy customer retention improved, however the number of customers reduced by 17,000 or 3% in the year due to the impact of Covid-19 on services sales channels and a fiercely competitive pricing environment in energy markets.
- Customer complaints improved to below 2% while Journey NPS showed significant improvement, reflecting an ongoing focus on improving the customer experience in part through investment in digital platforms. Customer adoption of self-service digital channels contributed to a 20% reduction in inbound contacts compared to 2019.
- Bord Gáis Energy adjusted operating profit reduced by 16% to £42m, largely reflecting the impacts of Covid-19 on business energy demand and bad debts.

Strong performance in Energy Marketing & Trading

Energy Marketing & Trading	2020	2019	Change
Renewable capacity under management (GW)	**10.7**	9.9	8%
Adjusted operating profit (£m) [1]	**174**	138	26%

1. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.

- Trading and optimisation performance was strong in the year, in particular in LNG.
- Energy Marketing & Trading renewable route-to-market capacity under management increased by 8% from 9.9GW to 10.7GW.
- Energy Marketing & Trading adjusted operating profit increased by 26% to £174m due to the strong LNG trading performance and the decision in response to Covid-19 not to pay management bonuses relating to 2019 across Centrica, which resulted in an accrual release. This was partially offset by a loss from the one remaining legacy gas contract of £58m, compared to a profit of £3m in 2019.

Centrica Business Solutions heavily impacted by Covid-19

Centrica Business Solutions	2020	2019	Change
Energy supply small customer sites ('000) [1]	**470**	470	0%
Energy supply total gas and electricity volume (TWh) [1]	**25.0**	25.0	0%
Energy supply complaints per customer (%) [2]	**3.4%**	3.8%	(0.4ppt)
Energy supply transactional NPS [3]	**(22)**	(26)	4pt
New Energy Services order intake (£m)	**350**	392	(11%)
New Energy Services order book (£m)	**697**	663	5%
Adjusted operating (loss) (£m)	**(140)**	(20)	nm

1. 2020 includes 67,000 small business customers on British Gas' low cost 'software as a service' third party platform.
2. Any oral or written expression of dissatisfaction where the customer claims to have suffered financial loss, material distress or material inconvenience.
3. Measured independently, through individual questionnaires, the customer's willingness to recommend.

- In Centrica Business Solutions Energy Supply:
  - The number of small business sites remained flat at 470,000 in the year. With the profile of these customers closely matching that of households, the intention is to migrate all these customers across to British Gas's 'software as a service' platform over the next couple of years.
  - The total amount of energy supplied in the year was in line with 2019. A positive impact on volume from a number of new larger industrial and commercial customers was offset by the impact of businesses being closed during parts of the year due to Covid-19 lockdowns, which reduced full year demand by an estimated 12%.
  - Customer complaints and transactional NPS both improved slightly in 2020, with a particular focus during the year on increasing first time resolution rates.
- In Centrica Business Solutions New Energy Services:
  - Order intake was 11% lower than in 2019, as companies delayed investment decisions on new technologies during the Covid-19 pandemic, exacerbated in the UK by Brexit uncertainty. However, order intake improved in the second half of 2020 and was 30% higher than in H2 2019. The forward order book of £697m was 5% higher than at the end of 2019.
- Centrica Business Solutions reported an adjusted operating loss of £140m compared to a loss of £20m in 2019.
  - Business energy supply reported an adjusted operating loss of £55m (2019: profit of £54m), with broadly all the movement estimated to be due to Covid-19. The reduction in energy consumption resulted in reduced revenue, commodity hedges having to be unwound at a loss and higher

energy balancing costs, which are estimated to have impacted profit by around £90m in total. In addition, higher provisions for customer bad debt increased the bad debt charge by £34m.
- New Energy Services reported an adjusted operating loss of £85m (2019: £74m) including a £16m provision related to the transfer of US solar liabilities previously in Direct Energy. Excluding the impact of the US solar provision, New Energy Services adjusted operating loss was flat versus 2019 despite the significant challenges posed by Covid-19.

E&P production broadly in line with expectations, Nuclear impacted by operational issues

Upstream	2020	2019	Change
E&P total production volumes (mmboe)	**48.7**	52.5	(7%)
Nuclear power generated (TWh)	**9.1**	10.2	(11%)
Adjusted operating profit (£m) [1]	**90**	178	(49%)
E&P free cash flow (£m)	**170**	301	(44%)

1. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.

- Spirit Energy volumes were down 2% to 44.9mmboe compared to 2019, with natural field decline and lower Morecambe up-time only partially offset by the impact of new production wells at Chiswick and Chestnut, good production from the Cygnus field, and a first full year of production from the Oda field. Reduced capital expenditure compared to 2019 was also a factor in less new production coming on stream in 2020 and reflecting this, 2021 production is expected to be around 10% lower than in 2020.
- Spirit Energy's 2P reserves were 37mmboe lower at the end of 2020 than at the end of 2019, with the impact of production only partially offset by 9mmboe of positive revisions in Norway during the year.
- Production volumes from CSL's Rough field of 3.9mmboe were 42% lower than in 2019, reflecting the natural decline of the late-life field.
- Centrica's share of nuclear generation volumes of 9.1TWh was 11% lower than in 2019, as an extended outage at Hinkley Point B took the plant offline for most of the year. As in 2019, outages at Dungeness B and Hunterston B continued to limit nuclear output.
- Upstream adjusted operating profit reduced by 49% to £90m.
  - Spirit Energy E&P adjusted operating profit decreased by 7% to £84m (2019: £90m) with the impact of reduced achieved gas and liquids sales prices reflecting lower wholesale market prices largely offset by lower depreciation resulting from previous impairments, lower dry hole costs, and reduced operating and corporate costs.
  - CSL adjusted operating profit reduced by 67% to £23m (2019: £69m) reflecting lower production due to the natural decline in the Rough field and lower achieved gas prices.
  - Nuclear reported an adjusted operating loss of £17m, compared to a profit of £19m in 2019, with lower generation volumes reflecting the extended outages at a number of power stations.

SUMMARY GROUP FINANCIAL PERFORMANCE

Operating profit and earnings impacted by Covid-19 and low commodity prices

- In total, adjusted operating profit from continuing operations was down £203m, or 31%, to £447m, with the movements by business unit described in the previous section.
- When including a lower net finance charge reflecting a lower interest rate environment, a reduced tax rate reflecting a change in profit mix away from more highly taxed E&P activities and earnings attributable to non-controlling interests, adjusted earnings from continuing operations attributable to shareholders fell by 33% to £165m and adjusted EPS from continuing operations fell by 35% to 2.8p.
- When including earnings from Direct Energy, now classified as a discontinued operation, total Group adjusted earnings attributable to shareholders fell by 10% to £378m and adjusted EPS fell by 11% to 6.5p.

Significant exceptional charge due to restructuring costs and upstream impairments

- A pre-tax exceptional charge of £1,593m was recognised in continuing operations in 2020, the majority in the first half of the year. This includes restructuring costs of £274m and impairments of £1,319m, largely on Upstream assets due to the reduction in price forecasts and Nuclear plant availability issues. After tax, the total net exceptional charge recognised in continuing operations was £1,320m, compared to £993m in 2019.
- When including a total gain from certain net re-measurements after tax for continuing operations of £698m (2019: loss of £308m) and a loss attributable to non-controlling interests of £183m (2019: loss of £89m), the statutory loss from continuing operations attributable to shareholders was £274m in 2020 compared to a loss of £964m in 2019. The statutory EPS loss was 4.7p, compared to a loss of 17.8p in 2019.
- When including earnings from Direct Energy, total statutory earnings attributable to shareholders were £41m (2019: loss of £1,023m) and the statutory EPS was 0.7p (2019: loss of 16.8p).

Dividend

- In April, we announced the decision to cancel payment of the 2019 final dividend per share of 3.5p in response to the Covid-19 pandemic. No 2020 interim dividend was paid, and we are also proposing no 2020 final dividend. We recognise the importance of dividends to shareholders and intend to recommence dividends to shareholders when it is prudent to do so.

Robust cash flows

- EBITDA from continuing operations fell by 25% to £1,336m, largely due to the effects of lower commodity prices and Covid-19. However, overall cash flows were robust, demonstrating the flexibility we have to manage our cash flows, and the prompt and prudent actions we took to reduce cash expenditure in response to the Covid-19 pandemic.
- Net investment including disposals of under £500m was around 36% lower than in 2019, in line with guidance given at the time of our April Trading Update. Exceptional cash payments of £120m were significantly below 2019 spend of £264m, as we delivered restructuring more efficiently.
- Reflecting the above, free cash flow from continuing operations of £685m was 45% higher than in 2019. Including discontinued operations, total Group free cash flow of £1,061m was 10% higher.
- After including net interest and pension deficit payments, the impact of the decision to cancel the 2019 final dividend in response to the uncertainties caused by Covid-19, and non-cash increases to net debt of £245m, predominantly related to new leases on LNG vessels, net debt reduced by £412m over the year to under £2.8bn.

Balance sheet restructuring underway

- Net proceeds of £2.7bn from the sale of Direct Energy were received on 5 January 2021. Although a portion of these proceeds will be used to make a contribution to the Group's defined benefit pension schemes, the Group's leverage is now much improved.
- As a result, we have announced today we intend to redeem our €750m hybrid bond at its first call date of 10 April 2021 and have no plans to replace this with new hybrid capital. We still have a legacy of long-dated and relatively expensive debt, which we will look to address over time by retiring gross debt if we can do so in a value accretive way, once we have reached agreement with the pension trustees on the size of the contribution from the Direct Energy proceeds.
- We also retain significant access to liquidity. As at the end of December 2020, the Company had £1.1bn of available cash and cash equivalents (net of bank overdrafts) and £3.6bn of undrawn credit facilities.

Focus on pension deficit continues

- The IAS19 net pension deficit increased by £438m in the year to £601m, largely reflecting a reduction in the discount rate due to lower interest rates compared to the start of the year.
- The technical pension deficit, which is based on more conservative discount rate and inflation assumptions and determines the level of cash contributions into the schemes, was agreed at £1.4bn based on the 2018 triennial review.
- On a roll-forward basis using the same methodology from 2018, this technical provision deficit would be £1.9bn as at 31 December 2020. This is lower than the equivalent figure of £2.4bn as at 30 June 2020 and is before taking into account any additional contributions we intend to make from the Direct Energy proceeds.
- The next triennial valuation is scheduled for 31 March 2021. Under UK pensions regulations we have 15 months from this date to reach agreement with the pension trustees on the level of the deficit and any repair plan. Conversations with the trustees have already commenced.

DIVESTMENTS OF NON-CORE BUSINESSES TO FURTHER SIMPLIFY THE GROUP

Intention remains to sell Spirit Energy and exit E&P

- Our intention remains to exit oil and gas production in line with our strategic shift to simplify the Group, focus on the customer and decarbonise the Group's portfolio.
- In line with this, in 2019 we announced our intention to divest our 69% shareholding in the Spirit Energy E&P business. We were due to receive initial bids around the end of March 2020. However, we took the decision to pause the disposal process due to the uncertain backdrop created by the Covid-19 pandemic. We still intend to sell the business.
- While we still own Spirit Energy we will actively manage it. The steps we have taken with our partner and the Spirit management team mean the business was free cash flow positive in 2020 and assuming current commodity prices we expect it to be at least free cash flow neutral at 2021.

Nuclear divestment process currently paused

- In 2018, we announced our intention to divest our 20% interest in the UK operating nuclear fleet of power stations. We continue to consider options for a sale however the divestment process is currently paused given operational issues on a number of the power stations.
- We will also consider further divestments of other smaller assets or businesses if they help to simplify and de-risk the Group and we can realise good value for shareholders.

WELL POSITIONED TO NAVIGATE THROUGH CONTINUED UNCERTAINTIES IN 2021

- The outlook remains uncertain and reflecting this we are not providing any specific earnings or cash flow guidance for 2021.

- The return of tighter Covid-19 restrictions in the UK and Ireland continue to put additional pressure on business energy demand, and along with industrial action in our UK services business, is also impacting sales and our ability to complete services and solutions workload. The uncertain economic outlook and implications for unemployment also increase the potential for incremental working capital outflow and higher bad debt cost.
- In addition, Bord Gáis Energy's Whitegate CCGT is currently offline having experienced a forced outage in December, which will leave the power station out of action until the second half of 2021. We currently estimate a negative impact to 2021 adjusted operating profit of £25-£40m from lost revenue and higher market power price exposure to meet customer demand. We also forecast that Energy Company Obligation (ECO) costs in British Gas Energy will be around £80m higher in 2021 than in 2020.
- However, we expect to benefit materially from our significant restructuring programme, with year-on-year savings of more than £100m expected to drop through, in British Gas in particular. Along with an assumption of more normal weather conditions in the UK, we would expect to see some margin recovery in British Gas Energy in 2021 when compared to 2020.
- The increase in wholesale commodity prices should benefit our Upstream business in 2021, albeit gas and oil production volumes are expected to be around 10% lower than in 2020 and the outlook for nuclear generation remains uncertain given ongoing plant outages.
- Against this backdrop we will maintain a strong focus on free cash flow, in particular a tight discipline on operating costs, cash restructuring and capital expenditure, which is expected to be around £600m again in 2021.
- With the reduction in net debt delivered over 2020 and with proceeds from the Direct Energy sale now received, the balance sheet has been significantly strengthened. Combined with our continued focus on cash flow discipline, we are in a strong position to manage through the uncertainties.

FOCUS REMAINS ON SIMPLIFYING AND MODERNISING THE GROUP

- The sale of Direct Energy allows a greater focus on the core markets of the UK and Ireland, where we retain leading positions in energy supply and services. These businesses will be further strengthened by the actions we are taking to simplify the Group, improve the customer experience and reduce operating costs. This should position us to deliver longer-term customer-facing growth and add value for shareholders.
- In addition to navigating the ongoing Covid-19 related uncertainties, a major priority in 2021 will be continuing the operational transformation of the Group through completion of the restructure, helping to improve our competitiveness and drive further improvements in customer experience and customer retention.
- We will also look to improve the Group's strengthened balance sheet position and its efficiency. This includes continuing to pursue planned disposals and continuing the constructive conversations with the pension trustees regarding the 2021 triennial pensions valuation and subsequent funding plan.
- Looking further out, we remain focused on becoming a wholly customer-focused energy services and solutions company. Our market positions leave us well positioned to support and benefit from new market opportunities in the decarbonisation of power, heat and transport, while supporting a green economic recovery.
- However, we will pursue opportunities in a disciplined way and focus our attention on those that we believe will be beneficial to our customers and will add the most material value to the Group.
- We intend to set out our longer-term growth strategy in the second half of 2021.

Group Financial Review

REVENUE

- Business performance revenue arising from continuing and discontinuing operations reduced by 9% to £24.4bn (2019: £26.8bn). Group revenue from continuing operations included in business performance reduced by 6% to £14.9bn (2019: £16.0bn).
- Gross segment revenue from continuing operations, which includes revenue generated from the sale of products and services between segments, reduced by 9% to £15.7bn (2019: £17.2bn). This was driven largely by the impact of lower commodity prices on Upstream achieved prices and British Gas retail prices, and lower demand for energy from businesses due to Covid-19.
- A table reconciling different revenue measures is shown in the table below:

			2020			2019
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 statutory revenue			**12,249**			12,994

OPERATING PROFIT / (LOSS)

- Adjusted operating profit from continuing operations reduced by 31% to £447m (2019: £650m). The statutory operating loss from continuing operations was £362m (2019: loss of £783m). The difference between the two measures of profit relates to exceptional items and certain remeasurements. A table reconciling the different profit measures is shown below:

Year ended 31 December	Notes	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Statutory result £m	2019 Business performance £m	2019 Exceptional items and certain re-measurements £m	2019 Statutory result £m
Continuing operations							
British Gas		**281**			304		
Energy		***80***			*124*		
Services		***256***			*252*		
Solutions		***(55)***			*(72)*		
Bord Gáis Energy		**42**			50		
Energy Marketing & Trading		**174**			138		
Centrica Business Solutions		**(140)**			(20)		
Energy Supply		***(55)***			*54*		
New Energy Services		***(85)***			*(74)*		
Upstream		**90**			178		
Spirit Energy		***84***			*90*		
CSL		***23***			*69*		
Nuclear		***(17)***			*19*		
Group operating profit/(loss)	5(c)	**447**	**(809)**	**(362)**	650	(1,433)	(783)
Net finance cost	7	**(215)**	**-**	**(215)**	(251)	-	(251)
Taxation	8	**(42)**	**187**	**145**	(142)	132	(10)
Profit/(loss) from continuing operations		**190**	**(622)**	**(432)**	257	(1,301)	(1,044)
Profit attributable to non-controlling interests		**(25)**	**183**	**158**	(9)	89	80
Adjusted earnings from continuing operations		**165**	**(439)**	**(274)**	248	(1,212)	(964)
Discontinued operations		**213**	**102**	**315**	171	(230)	(59)
Adjusted earnings attributable to shareholders		**378**	**(337)**	**41**	**419**	**(1,442)**	**(1,023)**

Adjusted operating profit

- As initially flagged in our Trading Update in April and in the results for the first six months of the year, Covid-19 had a significant impact on adjusted operating profit in 2020.
  - The impact from Covid-19 on adjusted operating profit from continuing operations is estimated at around £250m before mitigating actions, with approximately £90m of the impact related to the combined effects of reduced overall energy consumption, the related sell back to the market of commodity not required in the first half of the year, and higher balancing costs. Of the remainder, around £80m gross margin was lost due to reduced services and solutions activity with only essential work undertaken during lockdown periods, and around £80m relates to increased customer bad debt.
  - Mitigating actions of approximately £150m meant the net impact of Covid-19 on adjusted operating profit from continuing operations was approximately £100m. The largest element of the mitigating actions was due to our decision not to pay senior management bonuses relating to 2019 performance, resulting in the release of an accrual made in 2019. The mitigating actions also included discretionary cost savings, while the Group received £27m under the UK

Government's Coronavirus Job Retention Scheme. Further detail on government support received during the year is provided in note 1(c).

- In addition, warmer than normal weather negatively impacted the energy supply businesses by an estimated £40m and the remaining legacy gas contract in Energy Marketing & Trading lost £58m in 2020 compared to a small profit in 2019. However, we benefited from the non-recurrence of a one-off cost of £70m incurred in 2019 in British Gas Energy due to an Ofgem revision to the default price cap methodology to calculate supplier wholesale costs during Q1 2019.
- Underlying performance from the customer-facing business units was resilient overall despite continued gross margin pressures in British Gas Energy, with benefit from efficiency initiatives in all business units and strong trading and optimisation performance, in particular in LNG.
- However, lower commodity prices and lower nuclear volumes impacted the Upstream division. These were only partly offset by lower E&P depreciation and field write off costs, and tight cost control. As a result, Upstream adjusted operating profit was £88m lower than in 2019.

GROUP FINANCE CHARGE AND TAXATION

Finance costs

- Net finance costs for continuing operations decreased to £215m (2019: £251m), with reduced interest costs on bonds, bank loans and overdrafts reflecting the impact of lower interest rates on floating debt.

Taxation

- Business performance taxation on profit from continuing operations decreased to £42m (2019: £142m) reflecting the reduction in operating profit. After taking account of tax on joint ventures and associates, the adjusted tax charge was £67m (2019: £141m). The resultant adjusted tax rate for the Group was 26% (2019: 35%), which reflects a change in profit mix within the E&P business away from the more highly taxed Norwegian fields which were loss making in 2020.
- This included a deferred tax adjustment following the UK Government's decision to cancel the proposed reduction in the future corporation tax rate below its current level of 19%, which increased the tax charge by £40m. It also includes a £29m PRT related credit in the year.
- An effective tax rate calculation is shown below:

Year ended 31 December	**2020 £m**	2019 £m
Adjusted operating profit from continuing operations before impacts of taxation	**447**	650
Add: JV/associate taxation included in adjusted operating profit	**25**	(1)
Net finance cost from continuing operations	**(215)**	(251)
Adjusted profit before taxation	**257**	398
Taxation on profit from continuing operations	**(42)**	(142)
Share of JV/associate taxation	**(25)**	1
Adjusted tax charge	**67**	141
Adjusted effective tax rate	**26%**	35%

EXCEPTIONAL ITEMS

- An exceptional pre-tax charge of £1,593m was included within the statutory Group operating loss from continuing operations in 2020 (2019: £1,123m) including:
    - A £644m charge relating to the impairment of E&P assets and goodwill, predominantly due to the reduction in near-term prices and long-term price forecasts. The charge also includes a £135m write down of the Greater Warwick Area assets, reflecting significant uncertainty over field development.

  - A £525m charge relating to the impairment of power assets, including £481m relating to the nuclear investment largely as a result of a reduction in price forecasts and availability issues at the Hunterston B, Dungeness B and Hinkley Point B power stations. It also includes a £23m charge relating to gas-fired and battery power assets as a result of lower price forecasts and a £21m charge relating to a forced outage at Whitegate power station.
  - A £78m charge relating to the impairment of Centrica Business Solutions goodwill driven by reduced growth prospects in North America following the disposal of Direct Energy.
  - A £72m charge relating to the impairment of intangible IT assets following the decision to merge Centrica Home Solutions activities into British Gas and reduce the scale and breadth of offers.
  - £274m of restructuring charges relating to the Group's strategic restructure and headcount reduction, including a £120m pension strain charge. With only residual costs for the roll-off of existing projects expected in 2021, this will be the final material exceptional charge relating to the Group's restructuring programme which was planned to result in £2bn of annualised efficiencies between 2015-22 and has resulted in £1.2bn of exceptional restructuring costs since 2015.
- These charges in total generated a taxation credit of £336m (2019: £130m) and there was a separate £63m deferred tax asset write-off associated with E&P activities, related to the reduction in price forecasts. As a result, total net exceptional charges recognised in continuing operations after taxation were £1,320m (2019: £993m).
- Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 6(b) and 6(c).

CERTAIN RE-MEASUREMENTS

- 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 similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9.
- The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they 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.
- The operating loss in the statutory results includes a net pre-tax profit for continuing operations of £784m (2019: loss of £310m) relating to these re-measurements. With the Group generally a net purchaser of commodity, the gain was due to both the unwind of out-of-the-money positions from December 2019, and a net positive revaluation of contracts due for delivery in future periods as commodity prices rose over the second half of 2020. These re-measurements generated a taxation charge of £86m (2019: credit of £2m). As a result, the total profit from net re-measurements after taxation for continuing operations was £698m (2019: loss of £308m).
- The Group recognises the realised gains and losses on these contracts when the underlying transaction occurs. The business performance profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.
- Further details can be found in note 6(a).

DISCONTINUED OPERATIONS

- The sale of Direct Energy was announced on 24 July 2020 and as such its activities are treated as a discontinued operation in the 2020 financial results.
- Adjusted operating profit from discontinued operations increased slightly to £252m (2019: £251m), with a resilient result in residential energy supply and lower depreciation due to the cessation of

depreciation from the announced date of the sale. These were offset by the impacts of lower volumes and hedging sell backs in periods of low business consumption during Covid-19 lockdowns.

- Adjusted earnings from discontinued operations increased to £213m (2019: £171m) due to a lower tax charge arising from certain tax credits in the year. Adjusted EPS from discontinued operations increased from 3.0p to 3.7p.
- After accounting for a post-tax exceptional charge of £36m (2019: credit of £6m), largely relating to disposal related costs, and positive post-tax certain re-measurements of £138m (loss of £236m), largely due to the unwind of out of the money positions from December 2019, the statutory profit from discontinuing operations after taxation was £315m (2019: loss of £59m).

GROUP EARNINGS

Adjusted earnings

- Profit for the year from business performance from continuing operations after taxation was £190m (2019: £257m). When including discontinued operations earnings of £213m, total Group profit for the year from business performance after tax decreased to £403m (2019: £428m) and after adjusting for non-controlling interests, adjusted earnings decreased by 10% to £378m (2019: £419m).
- Adjusted basic EPS was down 11% to 6.5p (2019: 7.3p). Adjusted basic EPS from continuing operations was 2.8p (2019: 4.3p).

Statutory earnings

- The statutory profit attributable to shareholders for the period was £41m (2019: loss of £1,023m). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements.
- The Group reported a statutory basic EPS of 0.7p (2019: loss of 17.8p) and a statutory EPS loss from continuing operations of 4.7p (2019: loss of 16.8p).

Dividend

- The Group is proposing no 2020 final dividend having also paid no 2020 interim dividend.

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Group cash flow

- Free cash flow is the primary cash measure of cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow is reconciled to statutory net cash flow from operating and investing activities in the table below. See the explanatory note in note 5(f) for further details.

Year ended 31 December	**2020 £m**	2019 £m
Statutory cash flow from continuing operating activities	**957**	970
Statutory cash flow from continuing investing activities	**(263)**	(651)
Statutory cash flow from continuing operating and investing activities	**694**	319
Add back/(deduct):		
Sale and settlement of securities	**(121)**	(50)
Interest received	**(7)**	(11)
Movements in collateral and margin cash included in net debt	**(56)**	(21)
Defined benefit pension deficit payment	**175**	235
Free cash flow from continuing operations	**685**	472
Discontinued operations free cash flow	**376**	494
Free cash flow	**1,061**	966

- Net cash flow from continuing operating activities of £957m was broadly unchanged year-on-year (2019: £970m). EBITDA was significantly lower however this was largely offset by lower pension deficit payments and lower payments related to exceptional charges.
- Net cash outflow from continuing investing activities reduced to £263m (2019: £651m), largely due to lower capital expenditure reflecting ongoing capital discipline during the Covid-19 pandemic and the receipt of a dividend from the Nuclear investment compared to no dividend in 2019.
- Group total free cash flow was £1,061m (2019: £966m), including £685m of free cash flow from continuing operations (2019: £472m) and £376m of free cash flow from discontinuing operations (2019: £494m). The lower free cash flow from discontinuing operations reflects the impact of divestment proceeds received from the Clockwork home services portfolio sale in 2019.
- Net cash outflow from continuing financing activities reduced to £466m in 2020 (2019: £1,058m) with no dividend paid to Centrica plc shareholders or Spirit Energy minority shareholders in 2020.

Net debt

- All of the above resulted in a £633m increase in cash and cash equivalents over the year, and when also including non-cash movements and exchange adjustments, net debt reduced by £412m to £2,769m, including cash collateral posted or received in support of wholesale energy procurement.
- Further details on the Group's net debt are included in note 11.

Pension deficit

- The Group's IAS 19 net pension deficit increased by £438m to £601m in the period, with a reduction in the discount rate due to lower interest rates increasing obligations. The increase was partially offset by the effects of an increase in the value of the pension assets, inflation and agreed deficit payments.
- Further details on the post-retirement benefits are included in note 14.

Balance sheet

- Net assets decreased to £1,382m (31 December 2019: £1,795m), with the statutory profit in the year more than offset by the increase in retirement benefit obligations.

2020 ACQUISITIONS AND 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 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 £102m, after adjustments for final working capital balances and after transaction costs.
- Further details on assets purchased, acquisitions and disposals are included in notes 5(e) and 15.

EVENTS AFTER BALANCE SHEET DATE

- On 5 January 2021, the Group completed the sale of its North American energy supply, services and trading business, Direct Energy, to NRG for $3.625 billion on a debt free, cash free basis. This is expected to lead to a profit on disposal of approximately £0.6bn.
- Details of events after the balance sheet date are described in note 18.

RISKS AND CAPITAL MANAGEMENT

- Whilst the nature of the Group's principal risks and uncertainties are broadly unchanged from those set out in its 2019 Annual Report, the Group has actively responded to those risks heightened by Covid-19, with Centrica's approach to risk management enabling a rapid mobilisation of resources to react to the challenges caused by the pandemic. The extent to which the Group may be impacted by Covid-19 will in part depend on the degree of government support, in the form of direct aid and stimulus programmes, which will be a factor in the degree of customer bad debt we may see. It will also create implications in how we respond to debt management for vulnerable customers and will impact the speed of recovery in the commercial sector.

- Our top three Principal Risks are Political & Regulatory Intervention, Commodity Risk and Asset Production. Falls in commodity prices and asset valuations have heightened our risks associated with Commodity Risk and Access to Sufficient Market Liquidity. Capability of People, Processes and Systems risk is also intensified as we progress through our programmes of change.
- Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4. Details of the Group's capital management processes are provided under sources of finance in note 11(a).

ACCOUNTING POLICIES

- 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 Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Appendix: Upstream performance metrics

Nuclear

Year ended 31 December	2020	2019	Change
Nuclear power generated (GWh)	**9,134**	10,199	(10%)
Nuclear achieved power price (£/MWh)	**51.3**	49.2	4%

Exploration & Production

Year ended 31 December	2020	2019	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.26**	0.26	0%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.00**	0.05	(100%)
Gas production volumes (mmth)			
Spirit Energy	**1,705**	1,942	(12%)
CSL[1]	**238**	410	(42%)
Total gas production volumes (mmth)	**1,943**	2,352	(17%)
Liquids production volumes (mmboe)			
Spirit Energy	**17.0**	14.1	21%
CSL	**0.1**	0.1	0%
Total liquids production volumes (mmboe)	**17.0**	14.2	20%
Total production volumes (mmboe)			
Spirit Energy	**44.9**	45.8	(2%)
CSL[1]	**3.9**	6.7	(42%)
Total production volumes (mmboe)	**48.7**	52.5	(7%)
Average achieved gas sales prices (p/therm)			
Spirit Energy	**35.4**	42.0	(16%)
CSL	**46.3**	47.4	(2%)
Average achieved liquid sales prices (£/boe)			
Spirit Energy	**34.2**	44.1	(22%)
CSL	**21.5**	40.6	(47%)
Lifting and other cash production costs (£/boe)[2]			
Spirit Energy	**13.2**	15.7	(16%)
CSL[1,3]	**17.7**	12.2	45%
Gas and liquids realisations (£m)[4]	**1,297**	1,610	(19%)
Unit DDA rate (£/boe)			
Spirit Energy	**11.3**	14.1	(20%)
CSL	**3.5**	7.6	(54%)
Net investment (£m)[5]			
Capital expenditure (including small acquisitions)	**432**	479	(10%)
Net disposals	**(32)**	(64)	(50%)
Net investment (£m)	**400**	415	(4%)
Free cash flow (£m)[5]	**170**	301	(44%)

1. 2019 restated to include all production volumes.
2. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
3. 2019 restated following the treatment of Direct Energy as a discontinued operation and the reallocation of corporate costs.
4. Realisations are total revenues from sales of gas and liquids including hedging and net of Spirit NTS costs.
5. 2019 restated to be aligned to group methodology. See pages 75 to 77 for an explanation of the use of adjusted performance measures.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IAS in conformity with the requirements of the Companies Act 2006 and IFRS standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the Group Financial Statements; and
- prepare the Group Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Each of the Directors confirms that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006 and IFRS standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report contained in the Annual Report and Accounts, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board on 24 February 2021

Chris O'Shea	**Kate Ringrose**
Group Chief Executive	**Group Chief Financial Officer**

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	5	**14,949**	**(2,700)**	**12,249**	15,958	(2,964)	12,994
Cost of sales		**(12,616)**	**4,118**	**(8,498)**	(13,124)	4,766	(8,358)
Re-measurement and settlement of energy contracts	6	**–**	**(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		**(1,714)**	**–**	**(1,714)**	(2,060)	–	(2,060)
Credit losses on financial assets	16	**(195)**	**–**	**(195)**	(112)	–	(112)
Exceptional items – impairments	6	**–**	**(1,319)**	**(1,319)**	–	(919)	(919)
Exceptional items – restructuring costs	6	**–**	**(154)**	**(154)**	–	(323)	(323)
Exceptional items – net pension change (charge)/credit	6	**–**	**(120)**	**(120)**	–	152	152
Exceptional items – net loss on significant disposals	6	**–**	**–**	**–**	–	(33)	(33)
Operating costs		**(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	6,12	**23**	**(2)**	**21**	(12)	(1)	(13)
Group operating profit/(loss)	5	**447**	**(809)**	**(362)**	650	(1,433)	(783)
Net finance cost	7	**(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	8	**(42)**	**187**	**145**	(142)	132	(10)
Profit/(loss) from continuing operations after taxation		**190**	**(622)**	**(432)**	257	(1,301)	(1,044)
Discontinued operations (ii)	6,15	**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	9	**–**	1.50
Final dividend per ordinary share		**–**	–

(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 26 to 71 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)		**9**	(4)
Exchange differences on translation of foreign operations		**(54)**	(126)
Exchange differences reclassified to Group Income Statement on disposal	15	**12**	(18)
Gains on net investment hedging (net of taxation) (i)		**40**	–
Items that will not be reclassified to the Group Income Statement:			
Net actuarial losses on defined benefit pension schemes (net of taxation)		**(379)**	(387)
(Losses)/gains on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)		**(4)**	2
Share of other comprehensive income of associates, net of taxation	12	**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		**(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.

The notes on pages 26 to 71 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 9)	6	90	–	–	96	–	96
Dividends paid to equity holders (note 9)	–	–	(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 26 to 71 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		**2,643**	3,133
Interests in joint ventures and associates	12	**843**	1,306
Other intangible assets		**1,011**	1,455
Goodwill		**929**	2,578
Deferred tax assets		**636**	553
Trade and other receivables, and contract-related assets	16	**145**	154
Derivative financial instruments	13	**366**	493
Retirement benefit assets	14	**–**	56
Securities	11	**134**	131
		6,707	9,859
Current assets			
Trade and other receivables, and contract-related assets	16	**2,801**	4,839
Inventories		**324**	431
Derivative financial instruments	13	**1,224**	1,320
Current tax assets		**132**	115
Securities	11	**–**	124
Cash and cash equivalents	11	**1,820**	1,342
		6,301	8,171
Assets of disposal groups classified as held for sale	15	**4,111**	124
		10,412	8,295
Total assets		**17,119**	18,154
Current liabilities			
Derivative financial instruments	13	**(747)**	(1,854)
Trade and other payables, and contract-related liabilities		**(3,722)**	(5,533)
Current tax liabilities		**(235)**	(339)
Provisions for other liabilities and charges		**(188)**	(284)
Bank overdrafts, loans and other borrowings	11	**(787)**	(857)
		(5,679)	(8,867)
Liabilities of disposal groups classified as held for sale	15	**(1,986)**	(18)
		(7,665)	(8,885)
Non-current liabilities			
Deferred tax liabilities		**(149)**	(151)
Derivative financial instruments	13	**(181)**	(291)
Trade and other payables, and contract-related liabilities		**(114)**	(152)
Provisions for other liabilities and charges		**(2,438)**	(2,175)
Retirement benefit obligations	14	**(601)**	(219)
Bank loans and other borrowings	11	**(4,589)**	(4,486)
		(8,072)	(7,474)
Total liabilities		**(15,737)**	(16,359)
Net assets		**1,382**	1,795
Share capital		**361**	360
Share premium		**2,347**	2,330
Retained earnings		**(836)**	(869)
Other equity		**(915)**	(609)
Total shareholders' equity		**957**	1,212
Non-controlling interests		**425**	583
Total shareholders' equity and non-controlling interests		**1,382**	1,795

The Financial Statements on pages 21 to 71, of which the notes on pages 26 to 71 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 **Kate Ringrose**
Group Chief Executive **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	12	**(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		**(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	15	**43**	63
Purchase of property, plant and equipment and intangible assets	5	**(489)**	(757)
Sale of property, plant and equipment and intangible assets		**–**	6
Investments in joint ventures and associates	12	**(10)**	(1)
Dividends received from joint ventures and associates	12	**62**	1
Receipt of sub-lease capital payments	11	**3**	3
Interest received		**7**	11
Settlement and sale of securities	11	**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		**(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	11	**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 26 to 71 form part of these Financial Statements.

Notes to the Financial Statements

1. General information, 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.

(a) 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 Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2020 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2021.

The preliminary results for the year ended 31 December 2020 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2020 or 31 December 2019. The financial information for the year ended 31 December 2019 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2020 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

(b) Basis of preparation

The accounting policies applied in these Financial Statements for the year ended 31 December 2020 are consistent with those of the Annual Financial Statements for the year ended 31 December 2019, as described in those financial statements, with the exception of standards, amendments and interpretations effective in 2020 and other presentational changes.

(c) 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. General information, basis of preparation and summary of significant new accounting policies and reporting changes

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

At the date of authorisation of these 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 assets and contingent liabilities', 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 37 specify the costs that an entity should include when assessing whether a contract is onerous and therefore requires a provision.

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 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.

(e) 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 Gais 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 5.

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.

2. Centrica specific accounting measures

(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.

3. Critical accounting judgements and key sources of estimation uncertainty

(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 6.

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 6.

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 note 6. Sensitivity to the assumptions is also found in note 6 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 6.

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 16. 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.

3. Critical accounting judgements and key sources of estimation uncertainty

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 14.

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 17. 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.$90m (c.£66m), and this level of reduction in these parameters would not give rise to a material charge to the Group Income Statement.

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.

3. Critical accounting judgements and key sources of estimation uncertainty

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 72.

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 72. Details of impairments of exploration and production fields and goodwill, along with associated sensitivities, are given in note 6.

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.

4. Risk management

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. The system of risk management and internal control is set out in the 2019 Annual Reports and Accounts.

During 2020, the risks that were prioritised for leadership attention related to:

- risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes;
- risk of financial loss due to our exposure to market, credit and operational risk;
- risk that failures in the development of integrity of our investments in operated and non-operated assets could compromise performance delivery;
- risk that our balance sheet may not be resilient, limiting our ability to access funding with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business;
- risk of cyber-attack, security of IT systems and resilience to restore system availability;
- the impact on present or future profitability resulting from deviations to normal weather;
- risk that we are unable to attract and retain employees, fail to deliver the planned benefits from technological change or poor access controls leading to the business failing to have the appropriate capabilities to meet our strategic objectives;
- risk that events in the external market or environment could hinder the delivery of our strategy;
- risk of failure to comply with laws and regulations, and to behave ethically in line with Our Code, resulting in adverse reputational and/or financial impact; and
- risk of failure to protect the health and safety of customers, employees and third parties or to take appropriate measures to protect our environment and respond to climate change.

COVID-19 has posed significant challenges to the risk management and resilience of businesses across the globe. Centrica has a robust approach to risk management which enabled a rapid mobilisation of resources to react and mitigate the potential impacts of the pandemic.

Financial risks are assessed at a Business Unit (BU) level to determine the impact and likelihood. During the BU and Group level risk reviews, the adequacy of mitigating actions are considered given the net residual risk scores in comparison to the Group risk appetite.

Bi-annually, the Group Financial Risks are presented to the Centrica Leadership Team (CLT) for review and challenge. These include the aggregate risk assessments from the BU 'bottom-up' process and any Group level risk assessments. All Group Principal Risks including Financial risks as updated by the Centrica Leadership Team are presented to the Audit Committee for review.

The four main areas of financial risk are managed as follows:

- commodity price risk management is carried out in accordance with the 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;
- wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy; and
- downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk for financial assets

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 across 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.

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 (2019: £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 note 11 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.

5. 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 Gais 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.

5. 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.

Year ended 31 December	2020 Gross segment revenue £m	2020 Less inter-segment revenue £m	2020 Group revenue £m	2019 (restated) (i) Gross segment revenue £m	2019 (restated) (i) Less inter-segment revenue £m	2019 (restated) (i) Group revenue £m
Continuing operations						
British Gas	**7,887**	**(2)**	**7,885**	8,327	(1)	8,326
Bord Gais 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.

Year ended 31 December	2020 Revenue from contracts with customers in scope of IFRS 15 £m	2020 Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	2020 Group Revenue £m	2020 Revenue in business performance arising from contracts in scope of IFRS 9 £m	2020 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 Gais 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**

5. Segmental analysis

Year ended 31 December	2019 (restated) (i) 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	6,629				
Energy services	699				
British Gas	7,328	998	8,326	–	8,326
Energy supply – Republic of Ireland	779				
Bord Gais 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) 2020 £m	2019 £m	Non-current assets (based on location of assets) (ii) 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.

5. 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 Gais 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).

5. 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 Gais 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.

5. 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 Gais 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 7)	**(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 17 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.

5. 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 Gais 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 14)	**(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).

6. 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 8)	**(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)

6. 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 8)	**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)

	2020 £m	2019 £m
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 reductions 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 15).

(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 Gais 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, 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.

6. 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.

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.

6. 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.

6. 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 CO2 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.

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.

7. 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%).

8. 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.

Analysis of tax charge

Year ended 31 December	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:						
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	**(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.

9. Dividends

Dividends represent the return of profits to shareholders and are paid twice a year; in June and November. 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 levels of realised profits within its retained earnings to support dividend payments. 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.

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

Year ended 31 December	2020 £m	2020 Pence per ordinary share	2019 £m	2019 Pence per ordinary share
Earnings – basic	**41**	**0.7**	(1,023)	(17.8)
Net exceptional items after taxation (notes 2 and 6) (i)	**1,220**	**21.0**	862	15.0
Certain re-measurement (gains)/losses after taxation (notes 2 and 6) (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

Year ended 31 December	2020 £m	2020 Pence per ordinary share	2019 £m	2019 Pence per ordinary share
Earnings – basic	**(274)**	**(4.7)**	(964)	(16.8)
Net exceptional items after taxation (notes 2 and 6) (i)	**1,184**	**20.3**	868	15.1
Certain re-measurement (gains)/losses after taxation (notes 2 and 6) (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

Year ended 31 December	2020 £m	2020 Pence per ordinary share	2019 £m	2019 Pence per ordinary share
Earnings – basic	**315**	**5.4**	(59)	(1.0)
Net exceptional items after taxation (notes 2 and 6)	**36**	**0.7**	(6)	(0.1)
Certain re-measurement (gains)/losses after taxation (notes 2 and 6)	**(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. 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.

11. Sources of finance

(b) 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.

				Other assets and liabilities				
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Collateral posted/ (received) £m	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.

11. 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

(c) Borrowings, leases and interest accruals summary

31 December	Coupon rate %	Principal m	2020 Current £m	2020 Non-current £m	2020 Total £m	2019 Current £m	2019 Non-current £m	2019 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.
(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.

12. 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%. Share of results of joint ventures and associates represents the Group's share of the results of these businesses.

(a) 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)

(b) Interests in joint ventures and associates

	2020	2019
	Investments in joint ventures and associates £m	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.

(c) 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

13. 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.

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.

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.

14. 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.

14. 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

14. 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.

14. 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.

14. 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.

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 the 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.

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

This section details acquisitions and disposals made by the Group.

(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.

15. 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.

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

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

Year ended 31 December	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Results for the year £m	2019 Business performance £m	2019 Exceptional items and certain re-measurements £m	2019 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 6 for further details.

16. 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.

31 December	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 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 11)	**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:

31 December	2020 Current £m	2020 Non-current £m	2019 Current £m	2019 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

16. 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 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. 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.

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.

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

British Gas residential energy credit risk

Of the Group total of £1,379 million billed 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).

16. 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) £90m of this impairment relates to discontinued operations (2019: 85m).

(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 £82m, 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.

16. 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 5. 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.

16. 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.

17. Commitments and contingencies

(a) Commitments

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 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

(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.

18. 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.

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 Gais 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	(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

The Ofgem Consolidated Segmental Statement (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.

The following is an extract from the audited CSS and is prepared in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences. This extract should be read in conjunction with the full CSS which includes the Statement, the audit opinion and the basis of preparation. This is available at www.centrica.com/2020-prelims.

Ofgem consolidated segmental statement

Year ended 31 December 2020

		Electricity Generation			Electricity Supply		Gas Supply		
	Unit	Nuclear	Thermal	**Aggregate Generation Business**	Domestic	Non-Domestic	Domestic	Non-Domestic	**Aggregate Supply Business**
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

		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

		Electricity Generation			Electricity Supply		Gas Supply		
	Unit	Nuclear	Thermal	Aggregate Generation Business	Domestic	Non-Domestic	Domestic	Non-Domestic	Aggregate Supply Business
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

		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%

Additional Information – Explanatory Notes (Unaudited)

Definitions and reconciliation of adjusted performance measures

Centrica's 2020 Preliminary Results 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 adjusted cash flow have been defined and reconciled separately in notes 2, 5 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	Notes	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	6	**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)	5	**659**	851	
Amortisation, write-downs and impairments of intangibles (i)	5	**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.

Group net investment

With an increased focus on cash generation, capital discipline and reducing net debt, Group net investment provides a measure of the Group's capital expenditure from a cash perspective and allows the Group's capital discipline to be assessed.

Year ended 31 December		2020 £m	2019 £m	Change
Capital expenditure (including small acquisitions) (i)		**489**	784	
Net disposals (ii)		**(33)**	(68)	
Group net investment		**456**	716	(36%)
Dividends received from joint ventures and associates	C/F	**(62)**	(1)	
Receipt of sub-lease capital payments	C/F	**(3)**	(3)	
Interest received	C/F	**(7)**	(11)	
Sale and settlement of securities	C/F	**(121)**	(50)	
Net cash flow used in continuing investing activities	C/F	**263**	651	(60%)

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).
(ii) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of investments in joint ventures and associates. See table (b).

Group net investment is capital expenditure including acquisitions less net disposals. It excludes cash flows from investing activities not associated with capital expenditure as detailed in the table above.

(a) Capital expenditure (including small acquisitions)

Year ended 31 December		2020 £m	2019 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**489**	757	
Purchase of businesses, net of cash acquired	C/F	**–**	27	
Less: material acquisitions (>£100 million)		**–**	–	
Capital expenditure (including small acquisitions)		**489**	784	(38%)

(b) Net disposals

Year ended 31 December		2020 £m	2019 £m	Change
Sale of businesses	C/F	**(43)**	(63)	
Sale of property, plant and equipment and intangible assets	C/F	**–**	(6)	
Investments in joint ventures and associates	C/F	**10**	1	
Net disposals		**(33)**	(68)	51%

Definitions and reconciliation of adjusted performance measures

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		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

Year ended 31 December	Note	2020 £m	2019 £m
PP&E depreciation		**672**	807
PP&E impairments		**482**	569
Joint venture impairments		**483**	372
Intangible write-down		**24**	178
Intangible amortisation		**258**	266
Intangible impairments		**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	5	**(47)**	(90)
Exceptional items	6	**(8)**	(66)
Cash flow depreciation, amortisation, write-downs, impairments and write-backs (continuing)	C/F	**2,217**	2,143
Continuing:			
Exceptional item impairments	6	**(1,305)**	(1,027)
Business Performance PP&E depreciation	5	**(657)**	(778)
Business Performance PP&E impairments	5	**(2)**	(73)
Business Performance intangibles amortisation	5	**(226)**	(205)
Business Performance intangibles impairments and write-downs	5	**(27)**	(60)

Reconciliation in receivables and payables to Group Cash flow Statement

Year ended 31 December		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		2020 £m	2019 £m
Cash contributions to defined benefit schemes in excess of service cost income statement charge	C/F	**(42)**	(493)
Employer contributions	14	**241**	320
Contributions by employer in respect of employee salary sacrifice arrangements	14	**28**	29
Total current service cost	14	**(107)**	(116)
Past service credit	14	**–**	260
Termination benefit	14	**(120)**	–

Discontinued operations Free Cash Flow

Year ended 31 December	Note	2020 £m	2019 £m
Discontinued operations Free Cash Flow	5	**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

Disclosures

Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

For further information

A pre-recorded results presentation will be available on Centrica.com at 8am (UK) on 25 February 2021 and Centrica will host a conference call for institutional investors and analysts at 10.30am (UK) on 25 February 2021. To register for the conference call please visit:
https://webcasts.centrica.com/centrica112/vip_connect

If you would like to join in listen only mode, please register at: https://webcasts.centrica.com/centrica112

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website by Monday 1 March 2021.

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Financial calendar

For more information on Centrica's financial calendar please visit: https://www.centrica.com/investors/financial-calendar/

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