Registration number: 02877398

Centrica Energy Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Centrica Energy Limited

Contents

Centrica Energy Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for Centrica Energy Limited (the 'Company') for the year ended 31 December 2019.

Principal activity
The principal activity of the Company is the wholesale trading of physical energy products and the trading of energy related derivatives. The main products traded in the year were natural gas, electricity, storage, emission certificates and oil in the United Kingdom and Europe. The Company is expected to carry on these trading activities for the foreseeable future.

Section 172(1) Statement
Section 172(1) of the Companies Act 2006 provides that a director of a company must act in a way that he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to various other stakeholder interests - below are the six key factors:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

In discharging our Section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of the Company's customers. The Directors remain conscious that their decisions could have an impact on other stakeholders where relevant. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we aim to make sure that our decisions are consistent and appropriate in all the circumstances.

We delegate authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The directors consider the Company's activities and make decisions. For example, each year we make an assessment of the strength of the Company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends. In 2019 we did recommend an interim dividend, but we did not recommend the payment of a final dividend. In making our decision we considered a range of factors including the long-term viability of the Company; its expected cash flow and financing requirements; the ongoing need for strategic investment in our business and the expectations of our shareholder as the supplier of long-term equity capital to the Company.

Review of the business
The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The financial position of the Company is set out on page 10. The net assets for the financial year ended 31 December 2019 are £186.6m (2018: £202.7m). The financial performance of the Company is set out in the Directors' Report on page 3.

Stakeholder Engagement
Proactive engagement remains a central focus for the Group and the Company, which ensures the directors have regard to the matters set out in S.172(1) (a) to (f) of the Companies Act. Further information on the Group's stakeholder engagement can be found on pages 16-17 of the Group's Annual Report and Accounts 2019. Engaging with stakeholders delivers better outcomes for society, and for our business. It's fundamental to our long-term success.

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

The Company's operations expose it to a number of financial risks. Given the size and nature of the Company these risks are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal financial risks facing the Company are market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management processes are designed to identify, manage and mitigate these risks.

The principal risks and uncertainties of the Group,which include those of the Company, are disclosed on page 34 to 43 of the Group's Annual Report and Accounts 2019, which does not form part of this report.

Exit from the European Union
The UK's exit from the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. It is unclear whether a trade deal will be agreed with the European Union during 2020 or the transition period will end without terms being agreed. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

Impact of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) outbreak and coronavirus disease (COVID-19) pandemic
On 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. Following United Kingdom government measures in response to the pandemic the Centrica plc group ("Group") became subject to a significant change in business environment, as well as implementing a number of significant operational changes in order to be able to continue to serve and support its customers.

With regards to the business environment, the Company has seen a fall in commodity prices since 11 March. As a proprietary trading business this does not translate to reduced profit as it depends on commodity positions held. Market exposure is actively monitored using a Value-at-Risk measure (note 20) which has remained low.

The only significant operational change to the Company is that employees have been working from home since 23 March 2020 following changes to law in the United Kingdom. This creates a risk of loss of supervisory oversight of activities on the trading floor. The Company's management have put in place measures to mitigate this risk including meeting more frequently to review such measures.

The full impact of the pandemic on the Company is uncertain as it could heighten market risk, credit risk and liquidity risk in the future. The Directors are confident that the Company's overall risk management processes are designed to identify, manage and mitigate these risks.

The events described above arose after the Company's balance sheet date, and therefore there is no impact on the results or financial position of the Company as at 31 December 2019. The Company is supported by the Group, which has stated that it intends to support the Company for a period of at least 12 months from the date the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that there are a range of future potential financial impacts upon the Group as a result of the pandemic but, following assurances from the ultimate parent company underpinned by its detailed assessment, have satisfied themselves that the Group will be able to support the Company if required under all reasonably foreseeable circumstances. For more information refer to the Going Concern section of the Directors' Report on page 4.

Key performance indicators ('KPIs')

Given the nature of the business, the Company's Directors are of the opinion that the KPIs necessary for an understanding of the development, performance and position of the Company are net assets and profit after tax, and these are shown above.

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 18-19 of the Group's Annual Report and Accounts 2019, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 4.

In addition to the Group KPIs noted above, the Directors of the Company believe that the trader margin which drives the operating profit of the business is the critical KPI specific to the Company. The operating profit is noted within the income statement reported on page 10. The operating profit forms part of the monthly reporting pack reviewed by senior management to gain an understanding of the performance of the business. Additional KPIs include the Directors' review of counterparty credit risk, Value at Risk ('VaR') and liquidity risk, which is analysed in detail within note 20. The extent of the risks relative to the approved limits are also reviewed monthly by senior management to gain an understanding of the performance of the business.

Future developments

On 11 June 2020, Centrica announced plans for a significant restructure designed to create a simpler, leaner group focused on improved service delivery for customers. The revised operating model is expected to accelerate the delivery of targeted cost savings and lead to a reduction of around 5,000 roles across the Group. The majority of the restructuring is expected to take place in the second half of 2020 after necessary consultations on the proposals have been concluded. The restructure will benefit the longer term value of the business, future operating profits and maintenance of a strong capital position of the Group. The Company would not expect to be materially impacted by the restructure but due to uncertainties arising from the consultation process it is not possible to quantify the effect at this time.

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

Approved by the Board on 29 July 2020 and signed on its behalf by:

Samantha Hood

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

Company Secretary

Company registered in England and Wales, No. 02877398

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

Centrica Energy Limited

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

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

J D Westby

C Mangerah

P J Worby (resigned 7 June 2019)

A Z Harding (appointed 21 October 2019)

The following director was appointed after the year end:

S Gerova (appointed 2 June 2020)

Results and dividends
The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2019 is £94,470,000 (2018: profit £77,132,000).

On the 9 December 2019, the Company paid an interim dividend of £100,000,000 to its immediate parent undertaking GB Gas Holdings Limited (2018 £nil). The Directors do not recommend the payment of a final dividend (2018: £nil).

Future developments
Future developments are discussed in the Strategic Report on page 3.

Going concern
The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances.

The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises. The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2nd April 2020. The trading statement announced that the final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. The Group going concern assessment included various sensitivities including the impacts of lower commodity pricing and a credit rating downgrade as well as mitigating actions such as reduction in capital expenditure and dividend reductions. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (stable) credit rating on 13 March and S&P confirmed a BBB (stable) credit rating on 31 March.

Events after the reporting period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. Covid-19 will have had a subsequent non-adjusting impact upon the valuations of the derivative portfolio given the change in commodity prices and volatility. However given the nature and complexity of the portfolio, and that a proportion of the derivatives will have settled post-year-end, it is not reasonably possible to quantify the impact upon the fair value of the derivative balances.

The Company has no other critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.

Directors' and officers' liability

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

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

Approved by the Board on 29 July 2020 and signed on its behalf by:

Samantha Hood

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

Company Secretary

Company registered in England and Wales, No. 02877398

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire

SL4 5GD

United Kingdom

Centrica Energy Limited

Independent Auditor's Report to the Members of Centrica Energy Limited

Report on the audit of the financial statements

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 23.

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

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

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

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Centrica Energy Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

James A. Leigh

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James Leigh FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 29 July 2020

Centrica Energy Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	(As restated*) 2018 £ 000
Revenue	4	200,431	156,332
Cost of sales	5	(28,851)	(20,073)
Gross profit		171,580	136,259
Operating costs	5	(39,005)	(44,269)
Operating profit		132,575	91,990
Finance income	7	16,036	17,850
Finance costs	7	(31,912)	(14,615)
Net finance (cost)/income		(15,876)	3,235
Profit before taxation		116,699	95,225
Taxation on profit	10	(22,229)	(18,093)
Profit for the year from continuing operations		94,470	77,132

The above results were derived from continuing operations.

* Certain prior year amounts have been reclassified for consistency with the current year presentation. See note 4 and note 5.

Centrica Energy Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Profit for the year		94,470	77,132
Items that will not be reclassified to the Income Statement			
Net actuarial (losses)/ gains on defined benefit pension schemes	17	(501)	505
Taxation on net actuarial gains/(losses) on defined benefit pension schemes		85	(131)
Other comprehensive (losses)/ income		(416)	374
Total comprehensive income for the year		94,054	77,506

The notes on pages 15 to 40 form an integral part of these financial statements.

Centrica Energy Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Deferred tax assets	10	942	1,414
Investments	11	850	850
Derivative financial instruments	21	200	-
Retirement benefit assets	17	475	831
		2,467	3,095
Current assets			
Trade and other receivables	12	771,054	1,186,799
Inventories	13	15,582	7,382
Derivative financial instruments	21	1,522,404	1,338,912
Cash and cash equivalents	14	-	257
		2,309,040	2,533,350
Total assets		2,311,507	2,536,445
Current liabilities			
Trade and other payables	16	(670,549)	(1,069,444)
Derivative financial instruments	21	(1,414,175)	(1,239,307)
Current tax liabilities		(20,420)	(17,146)
Borrowings	15	(2,968)	-
		(2,108,112)	(2,325,897)
Non-current liabilities			
Deferred tax liabilities	10	(81)	(193)
Trade and other payables	16	(6,091)	(7,437)
Derivative financial instruments	21	(459)	(183)
		(6,631)	(7,813)
Total liabilities		(2,114,743)	(2,333,710)
Net assets		196,764	202,735
Equity			
Share capital	18	50	50
Retained earnings		195,927	201,873
Share-based payments reserve		787	812
Total equity		196,764	202,735

The notes on pages 15 to 40 form an integral part of these financial statements.

Centrica Energy Limited

Statement of Financial Position as at 31 December 2019 (continued)

The financial statement on pages 10 to 40 were approved and authorised for issue by the Board of Directors on 29 July 2020 and signed on its behalf by:

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S Gerova
Director

Company number 02877398

Centrica Energy Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Share based payments reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	50	812	201,873	202,735
Profit for the year	-	-	94,470	94,470
Other comprehensive losses	-	-	(416)	(416)
Total comprehensive income	-	-	94,054	94,054
Dividends	-	-	(100,000)	(100,000)
Share incentive plan	-	(25)	-	(25)
At 31 December 2019	50	787	195,927	196,764

	Share capital £ 000	Share based payments reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	50	903	124,367	125,320
Profit for the year	-	-	77,132	77,132
Other comprehensive income	-	-	374	374
Total comprehensive income	-	-	77,506	77,506
Share incentive plan	-	(91)	-	(91)
At 31 December 2018	50	812	201,873	202,735

The notes on pages 15 to 40 form an integral part of these financial statements.

1 General information

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

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 3.

2 Accounting policies

Basis of preparation

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

Changes in accounting policy

From 1 January 2019, the following standards and amendments are effective in the Company's Financial Statements:

- IFRS 16: 'Leases'
- Amendments to IAS 19: 'Plan amendment, curtailment or settlement'.

The Company adopted IFRS 16: 'Leases' from 1 January 2019. The first-time adoption did not have any impact on the financial statements as the Company has no leases which fall under the scope of IFRS 16.

Amendments to IAS 19 resulted in the re-measurement of pension scheme assets and liabilities subsequent to the plan amendments during the year, as reflected and detailed further in note 17.

Summary of disclosure exemptions

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

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

2 Accounting policies (continued)

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

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

Measurement convention

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand except where otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below. The financial statements are prepared on the historical cost basis except for derivative financial instruments, financial instruments designated at fair value through profit and loss on initial recognition and the Company's share of assets of the Group's defined benefit schemes that have been recorded at fair value.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances. The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises. The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2nd April 2020. The trading statement announced that the final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. The Group going concern assessment included various sensitivities including the impacts of lower commodity pricing and a credit rating downgrade as well as mitigating actions such as reduction in capital expenditure and dividend reductions. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (stable) credit rating on 13 March and S&P confirmed a BBB (stable) credit rating on 31 March.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 Accounting policies (continued)

Revenue recognition
The Company recognises IFRS 15 revenue from the sale of Guarantees of Origin contracts and brokerage in line with the five step approach to revenue recognition required by IFRS 15. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow the Company and the revenue can be measured reliably.

Trading income- non IFRS 15 is the net of trading income and commodity costs from trading activities. Trading income comprises the fair value of the consideration received or receivable from trading activities in the ordinary course of the business, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the trading income can be measured reliably. Trading income comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts. Commodity costs comprise the fair value of the consideration paid or payable from trading activities in the ordinary course of the business, and is recognised to the extent that it is probable that economic benefits will flow away from the Company and the cost can be measured reliably. Commodity costs comprise both realised (settled) and unrealised (fair value changes) net losses and gains from trading in physical and financial energy contracts.

Revenue is shown net of sales/value added tax, returns, rebates and discounts.

Cost of Sales
Cost of sales includes the cost of Guarantee of Origin contracts and transportation, capacity, and service costs.

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

Employee share schemes
The Centrica plc group, to which the Company belongs, operates a number of employee share schemes, detailed in the Remuneration Report on pages 82-99 and in note S2 to the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on the Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Financing costs
Financing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Financing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

2 Accounting policies (continued)

Foreign currencies
Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the Company at the exchange rate ruling at the date of the transaction.

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

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

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

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

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

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

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

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

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

Inventories
Inventories of Guarantees of Origin contracts and Gas in storage are held at the lower of cost and estimated net realisable value.

2 Accounting policies (continued)

Pensions and other post-employment benefits
The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22 to the Group financial statements. The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions into that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

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

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

- Trade and other receivables
Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for expected credit losses. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

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

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

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

2 Accounting policies (continued)

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

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

Derivative financial instruments
The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 and are recognised in the Company's statement of financial position at fair value. Gains and losses arising from changes in fair value on derivatives are taken directly to the income statement for the year.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2019 of the ultimate controlling party being Centrica plc, in the Strategic Report - Principal Risks and Uncertainties on pages 34 to 43 and in note S3.

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

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

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

2 Accounting policies (continued)

Embedded derivatives: derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

3 Critical accounting judgements and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

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

Determination of fair values - energy derivatives

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

Value at risk

Given that trading positions are optimised on a daily basis, it has been determined to be more meaningful to disclose the VaR measure which management monitor than to provide sensitivity analysis of the impact of reasonable possible changes in key commodity prices over the next 12 months. The Company sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Company's proprietary energy trading activities. The VaR used measures the estimated potential loss for a 95% confidence level over a one-day holding period. The holding period used is based on market liquidity and the number of days the Company would expect it to take to close off a trading position. The VaR, before taxation, associated with the Company's proprietary energy trading activities at 31 December 2019 was £3,771,000 (2018: £2,121,000).

4 Revenue

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019 £ 000	(As restated*) 2018 £ 000
Trading income - non IFRS 15	164,165	122,307
Revenue - IFRS 15	36,266	34,025
Revenue	200,431	156,332

* Certain prior year amounts have been reclassified for consistency with the current year presentation. The format of the Income Statement has been changed to disclose revenue and cost of sales separately, in the prior year this was all netted as net trading income. As part of this restatement £17,656,000 of Guarantees of Origin contract costs have been reclassified to cost of sales instead of being netted within Trading income- non IFRS 15.

The Company carries out most of its trading within Euro markets where the majority of its income is generated. The other key market in which revenue is generated is the UK.

IFRS 15 revenue comprises income from brokerage and Guarantees of Origin contracts.

5 Analysis of costs by nature

	2019		(As restated*) 2018	
	Cost of sales £ 000	Operating costs £ 000	Cost of sales £ 000	Operating costs £ 000
Guarantees of Origin contract costs	(22,090)	-	(17,656)	-
Transportation, distribution and metering costs	(6,761)	-	(2,417)	-
Employee costs	-	(2,723)	-	(21,902)
Other operating costs	-	(36,282)	-	(22,367)
Total costs by nature	(28,851)	(39,005)	(20,073)	(44,269)

* Certain prior year amounts have been reclassified for consistency with the current year presentation. The format of the Income Statement has been changed to disclose revenue and cost of sales separately, in the prior year this was all netted as net trading income. As part of this restatement £17,656,000 of Guarantees of Origin contract costs have been reclassified to cost of sales instead of being netted within Trading income- non IFRS 15.

6 Employees' costs

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

	2019 £ 000	2018 £ 000
Wages and salaries	(2,035)	(18,792)
Social security costs	(225)	(2,540)
Pension and other post-employment benefits	(336)	(497)
Share-based payment expenses	2	(3)
Other employee expense	(129)	(70)
	(2,723)	(21,902)

The monthly average number of personnel directly employed by the Company, not including secondees from fellow Group companies, during the year was 19 (2018: 33). All personnel are based in the United Kingdom.

7 Net finance income/cost

Finance income

	2019 £ 000	2018 £ 000
Interest income from amounts owed by Group undertakings	15,983	17,835
Net foreign exchange gains on financing transactions	18	-
Other finance income	35	15
Total finance income	16,036	17,850

Finance cost

	2019 £ 000	2018 £ 000
Interest expense on bank overdrafts and borrowings	(775)	(22)
Interest on amounts owed to Group undertakings	(31,137)	(14,593)
Total finance costs	(31,912)	(14,615)
Net finance (cost)/ income	(15,876)	3,235

8 Directors' remuneration

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

9 Auditor's remuneration

Auditor's remuneration totalling £50,000 (2018: £50,000) relates to fees for the audit of the Financial Statements of the Company.

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

10 Income tax

Tax credited/(charged) in the Income Statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax at 19% (2018: 19%)	(21,784)	(18,510)
Deferred taxation		
Origination and reversal of temporary differences	(209)	417
Changes in tax rates	(236)	-
Total deferred taxation	(445)	417
Taxation on profit	(22,229)	(18,093)

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The corporation tax rate was due to reduce to 17% with effect from 1 April 2020. However, at the Budget on 11 March 2020 it was announced that the rate of corporation tax will remain at 19%.

As substantive enactment of the 19% corporation tax rate is after the balance sheet date, the deferred tax balances provided in these financial statements reflect the enacted rate of 17%. For future reporting dates after the enactment of the Finance Bill 2020, the deferred tax balances provided are expected to increase by £101,000, and will be reflected in the financial statements for the year ended 31 December 2020.

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

	2019 £ 000	2018 £ 000
Profit before tax	116,699	95,225
Tax on profit at standard UK corporation tax rate of 19% (2018: 19%)	(22,173)	(18,093)
Increase arising from group relief tax reconciliation	2,930	70
Decrease from transfer pricing adjustments	(2,930)	(70)
Decrease from tax rate changes	(56)	-
Total tax charge	(22,229)	(18,093)

10 Income tax (continued)

Deferred tax

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

	Fixed assets £000	Temporary difference trading £000	Pensions £000	Total £ 000
1 January 2019	1	1,413	(193)	1,221
Charged to the Income Statement	-	(472)	27	(445)
Charged/(credited) to other comprehensive income	-	-	85	85
31 December 2019	1	941	(81)	861

	Fixed assets £000	Temporary difference trading £000	Pensions £000	Total £ 000
1 January 2018	1	989	(55)	935
Charged/(credited) to the Income Statement	-	424	(7)	417
Charged/(credited) to other comprehensive income	-	-	(131)	(131)
31 December 2018	1	1,413	(193)	1,221

11 Investments

Subsidiaries	Total £ 000
Cost or valuation	
At 1 January 2019	850
At 31 December 2019	850
Net book value	
At 31 December 2019	850
At 31 December 2018	850

Details of the subsidiaries as at 31 December 2019 are as follows:

11 Investments (continued)

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2019	2018
Centrica Energy (Trading) Limited	Agency and arranging services	United Kingdom	Ordinary shares	100%	100%

The Directors consider that the carrying value of the investments is supported by their underlying net assets and that no impairment is required.

12 Trade and other receivables

	31 December 2019 Current £ 000	31 December 2018 Current £ 000
Trade receivables	-	1,723
Amounts owed by Group undertakings	117,937	126,087
Accrued energy income	632,585	898,314
Other receivables	20,532	160,675
	771,054	1,186,799

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is a payable of £537,411,000 (2018: £218,438,000 receivable) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.20 and 4.90% per annum during 2019 (2018: 3.72 and 4.13%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

The Company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in note 20 Financial risk management.

13 Inventories

	2019 £ 000	2018 £ 000
Gas in storage	7,714	-
Guarantees of origin contacts	7,868	7,382
	15,582	7,382

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

14 Cash and cash equivalents

	31 December 2019 £ 000	31 December 2018 £ 000
Cash at bank	-	257

15 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
Current bank overdrafts, loans and borrowings		
Bank overdrafts	(2,968)	-

16 Trade and other payables

	31 December 2019		31 December 2018	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Trade payables	(128)	-	(526)	-
Accrued expenses	(563,780)	(6,091)	(885,729)	(7,437)
Amounts owed to Group undertakings	(105,999)	-	(111,662)	-
Social security and other taxes	(101)	-	(5,858)	-
Other payables	(541)	-	(65,669)	-
	(670,549)	(6,091)	(1,069,444)	(7,437)

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. All amounts owed by Group undertakings are interest-free, unsecured and repayable on demand.

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 20 Financial risk management.

17 Post-retirement benefits

Defined benefit pension schemes

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

Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below in the Group financial statements as the 'Registered Pension Schemes'.

Accounting assumptions, risks and sensitivity analysis

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

Reconciliation of scheme assets and liabilities

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

	2019			2018		
	Assets (£000)	**Liabilities (£000)**	**Total (£000)**	**Assets (£000)**	**Liabilities (£000)**	**Total (£000)**
1 January	6,721	(5,890)	831	6,151	(5,859)	292
Items included in the Income Statement:						
Current service cost	-	(36)	(36)	-	(71)	(71)
Past service credit	-	62	62	-	-	-
Interest income/(expense)	195	(166)	29	164	(150)	14
Other movements:						
Re-measurement gains/(losses)	139	(640)	(501)	525	(20)	505
Employer contributions	105	(15)	90	91	-	91
Plan participants contributions	1	(1)	-	1	(1)	-
Benefits paid from schemes	(214)	214	-	(211)	211	-
31 December	6,947	(6,472)	475	6,721	(5,890)	831

Presented in the Statement of Financial Position as:

	2019 (£000)	2018 (£000)
Retirement benefit assets	475	831
	475	831

17 Post-retirement benefits (continued)

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

	2019 £000	2018 £000
Actuarial gain (actual return less expected return on pension scheme assets)	139	525
Experience gain/(loss) arising on the scheme liabilities	251	(8)
Changes in assumptions underlying the present value of the schemes' liabilities	(891)	(12)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(1,752)	(2,257)
	(2,253)	(1,752)

Pensions scheme contributions

Note 22 to the Group financial statements provides details of the triennial review based on the position at 31 March 2018 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements. Under IAS 19: 'Employee benefits (revised 2011)', the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £28,000 of employer contributions during 2019 at an average rate of 15% of pensionable pay together with contributions via the salary sacrifice arrangement of £19,000.

Pension scheme assets

The major categories of scheme assets are as follows:

	2019			2018		
	Quoted £ 000	Unquoted £ 000	Total £ 000	Quoted £ 000	Unquoted £ 000	Total £ 000
Equities	187,579	346,429	534,008	1,990,794	350,742	2,341,536
Corporate bonds	2,645,707	-	2,645,707	1,118,326	-	1,118,326
High-yield debt	1,015,377	1,287,829	2,303,206	594,845	1,360,380	1,955,225
Liability matching assets	1,430,486	1,075,275	2,505,761	1,581,172	993,947	2,575,119
Property	-	316,286	316,286	-	395,397	395,397
Cash pending investment	695,125	-	695,125	101,936	-	101,936
Asset-backed contribution assets	-	-	-	-	801,696	801,696
Group pension scheme assets [(i)]	5,974,274	3,025,819	9,000,093	5,387,073	3,902,162	9,289,235
Company share of the above (£'000)	6,947	-	6,947	6,721	-	6,721

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

17 Post-retirement benefits (continued)

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

Defined contribution pension scheme
The total cost charged to Income Statement of £285,000 (2018: £426,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

18 Capital and reserves

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	50,196	50,196	50,196	50,196

All ordinary shares issued are classified as 'equity instruments' in accordance with IAS 32. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

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

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

19 Dividends

	31 December 2019 £ 000	31 December 2018 £ 000
Interim dividend of £1,992.00 (2018 - £Nil) per ordinary share	100,000	-

On the 9th December 2019 the Company paid an interim dividend of £100m (2018: £Nil) to its immediate parent undertaking, GB Gas Holdings Limited. The Directors do not recommend the payment of a final dividend (2018: £Nil).

20 Financial risk management

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

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

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

Sensitivity analysis

An analysis of the sensitivity of the Company's financial position and performance to changes in foreign exchange rates has been performed. The Company deems 10% movements in the US Dollar and Euro currency rates relative to pounds sterling, to be reasonably possible. The impact of such movements on profit and equity, both before and after taxation, is immaterial to the Company except as follows:

• 10% upward movement in US Dollar would decrease profit by £511,500 (2018: £50,000 increase) and a 10% downward movement would increase profit by £625,200 (2018: £61,000 decrease).

• 10% upward movement in Euro would increase profit by £105,200 (2018: £1,321,000 increase) and a 10% downward movement would decrease profit by £128,500 (2018: £1,615,000 decrease).

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

20 Financial risk management (continued)

Commodity price risk management

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk is the risk that changes to gas and electricity prices would impact the net fair value of commodity contracts held for trading.

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

The Company sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Company's proprietary energy trading activities. The VaR used measures the estimated potential loss for a 95% confidence level over a one-day holding period. The holding period used is based on market liquidity and the number of days the Company would expect it to take to close off a trading position.

The VaR, before taxation, associated with the Company's proprietary energy trading activities at 31 December 2019 was £3,771,000 (2018: £2,121,000).

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Company is exposed to credit risk in its trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	31 December 2019			31 December 2018		
	Derivative financial instruments with positive fair values	Receivables from treasury, trading and energy procurement counterparties	Cash and cash equivalents	Derivative financial instruments with positive fair values	Receivables from treasury, trading and energy procurement counterparties	Cash and cash equivalents
	£000	£000	£000	£000	£000	£000
AAA to AA	24,772	1,100	-	5,325	9,154	-
AA- to A-	188,446	114,261	-	279,887	256,519	-
BBB+ to BBB-	1,005,490	570,243	-	834,829	692,993	257
BB+ to BB-	255,786	76,315	-	111,847	107,492	-
B or lower	3,356	-	-	4,408	3,382	-
Unrated (i)	44,754	9,135	-	102,615	117,259	-
Total	1,522,604	771,054	-	1,338,912	1,186,799	257

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

The carrying value of financial assets within trade and other receivables that are past due that are not considered to be individually impaired is nil (2018: nil). The Company does not hold any bad debt provisions (2018: nil).

20 Financial risk management (continued)

The Company uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exists (see table in note under 'Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements' for details of the amounts offset).

In addition, the Company employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See below for details of cash posted or received under margin or collateral arrangements.

Liquidity risk management

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they fall due. Cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly to ensure sufficient financial headroom exists for at least a 12 month period. The Company finances its operations through a combination of cash flow from operations and financing received from other Centrica Group companies. Liquidity risk is managed centrally by Centrica plc.

Maturity profiles

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

Due for payment 2019	**<1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**>5 years**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Energy and interest derivatives in a loss position that will be settled on a net basis	(216,275)	(32,379)	(2,096)	(1,834)	(1,623)	(13,322)
Gross energy procurement contracts and related derivatives carried at fair value (i)	(4,410,644)	(1,367,248)	(500,719)	(84,039)	(27,042)	(27,021)

Due for payment 2018	**<1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**>5 years**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Energy and interest derivatives in a loss position that will be settled on a net basis	(75,136)	(36,662)	(3,294)	(1,579)	(1,201)	(3,440)
Gross energy procurement contracts and related derivatives carried at fair value (i)	(2,351,165)	(1,812,778)	(2,213,736)	(1,329,620)	(310,920)	(118,404)

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

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

20 Financial risk management (continued)

	2019 £ 000	2018 £ 000
Net cash pledged as collateral at 1 January	(48,680)	(21,930)
Net cash inflow/ (outflow)	63,135	(26,750)
Net cash received / (pledged) as collateral at 31 December (i)	14,455	(48,680)

(i) Of the net cash collateral received / (pledged), £(445,000) (2018: £(70,480,000)) is included within trade and other payables and £14,900,000 (2018: £21,800,000) within trade and other receivables.

21 Fair value of financial instruments

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

Fair value hierarchy

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

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

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

	2019 Instruments at fair value through profit & loss £ 000	2018 Instruments at fair value through profit & loss £ 000
Level 3 financial instruments		
Total realised and unrealised (losses)/gains:		
1 January	113,766	24,819
Recognised in the Income Statement	(116,230)	88,947
31 December	(2,464)	113,766

21 Fair value of financial instruments (continued)

Financial instruments carried at fair value

	31 December 2019			31 December 2018		
	Fair value and carrying value £ 000	**Level 2 (i) £ 000**	**Level 3 £ 000**	**Fair value and carrying value £ 000**	**Level 2 (i) £ 000**	**Level 3 £ 000**
Derivative financial assets - held for trading under IFRS9						
Energy derivatives - for proprietary trading	1,522,604	1,502,210	20,394	1,338,912	1,219,941	118,971
Total financial assets at fair value through profit or loss	1,522,604	1,502,210	20,394	1,338,912	1,219,941	118,971
Derivative financial liabilities - held for trading under IFRS9						
Energy derivatives - for proprietary trading	(1,414,634)	(1,391,776)	(22,858)	(1,239,490)	(1,234,285)	(5,205)
Total financial liabilities at fair value through profit or loss	(1,414,634)	(1,391,776)	(22,858)	(1,239,490)	(1,234,285)	(5,205)
Net financial instruments at fair value	107,970	110,434	(2,464)	99,422	(14,344)	113,766

(i) There were no material transfers during the financial year/ period between level 1 and 2.

21 Fair value of financial instruments (continued)

Methods and assumptions
There were no material transfers during the financial year between level 1 and 2 and there were no material transfers during the financial year between level 2 and 3. There were no Level 1 trades during the year and at the end of the year.

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

The Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in marking the measurements. The fair value hierarchy has the following levels:

• quoted prices in active markets for the same instrument (i.e. without modification or repackaging) (Level 1);
• quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
• valuation techniques for which any significant input is not based on observable market data (Level 3).

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

(b) Valuation techniques used to derive Level 2 and 3 fair values and valuation process
Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2019 was 1% per annum (2018: 1% per annum).

For Level 3 energy derivatives, the main input used by the Company pertains to deriving expected future commodity priccs in markets that are not active as far into the future as some of our contractual terms. The active period for the UK Gas, Power, Emissions and Oil markets is deemed to be 3 years. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 2% per annum (2018: 2%).

21 Fair value of financial instruments (continued)

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

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

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

	2019	2018
Net deferred gains/(losses)	**£ 000**	**£ 000**
1 January	6,902	(4,412)
Net (losses)/ gains deferred on new transactions	(10,562)	6,930
Recognised in the Income Statement during the year	2,104	4,384
31 December	**(1,556)**	**6,902**

21 Fair value of financial instruments (continued)

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

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the Company Statement of Financial Position	Net amounts presented in the Company Statement of Financial Position	Related amounts not offset in the Company Statement of Financial Position (i)		
				Financial instruments	Collateral	Net amount
31 December 2019	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets	9,524,575	(8,001,971)	1,522,604	(423,313)	(445)	1,098,846
Derivative financial liabilities	(9,416,605)	8,001,971	(1,414,634)	432,904	14,900	(966,830)
Total derivatives	107,970	-	107,970	(258,240)	14,455	132,016
Accrued energy income	5,503,522	(4,860,909)	642,613	(186,333)	-	456,280
Accruals for commodity costs	(5,531,154)	4,860,909	(670,245)	186,333	-	(483,912)

21 Fair value of financial instruments (continued)

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the Company Statement of Financial Position	Net amounts presented in the Company Statement of Financial Position	Related amounts not offset in the Company Statement of Financial Position (i)		
				Financial instruments	Collateral	Net amount
31 December 2018	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**	**£ 000**
Derivative financial assets	6,572,240	(5,233,328)	1,338,912	(316,020)	(70,480)	952,412
Derivative financial liabilities	(6,472,818)	5,233,328	(1,239,490)	316,020	21,800	(901,670)
Total derivatives	99,422	-	99,422	-	(48,680)	50,742
Accrued energy income	6,742,836	(5,834,565)	908,272	(264,394)	-	643,878
Accruals for commodity costs	(6,815,420)	5,834,565	(980,856)	264,394	-	(716,462)

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

22 Parent and ultimate parent undertaking

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

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

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

23 Non adjusting events after the financial period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. Covid-19 will have had a subsequent non-adjusting impact upon the valuations of the derivative portfolio given the change in commodity prices and volatility. However given the nature and complexity of the portfolio, and that a proportion of the derivatives will have settled post-year-end, it is not reasonably possible to quantify the impact upon the fair value of the derivative balances.

The Company has no other critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.