Registration number: 03078711

British Gas Trading Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

British Gas Trading Limited

Contents

British Gas Trading Limited

Company Information

Directors	R Roy
	S E Mussenden
	P M Simon
	J P Pikunic
	M J Bateman
Company secretary	Centrica Secretaries Limited
Registered office	Millstream Maidenhead Road Windsor Berkshire SL4 5GD
Auditors	Deloitte LLP 1 New Street Square London United Kingdom EC4A 3HQ

British Gas Trading Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for British Gas Trading Limited (the 'Company') for the year ended 31 December 2019.

Principal activity
The principal activities of the Company are to buy, and subsequently sell, gas and power to its residential and business customers. It procures the commodity required for its customers from British Gas Energy Procurement Limited (BGEPL) under a long-term contractual supply arrangement. BGEPL procures gas and power, via back-to-back arrangements for the Company, from the market and through bilateral contracts.

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 decisions 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.

The directors 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 executives consider the Company's activities and make decisions. For example, each year an assessment of the strength of the Company's balance sheet and future prospects relative to market uncertainties and decisions about the payment of dividends are made. In 2019 an interim dividend of £500m was paid, however, the payment of a final dividend was not recommended. In making the decision a range of factors were considered 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 Disclosure Framework ('FRS 101').

The financial position of the Company is presented in the Statement of Financial Position on page 16. Total equity as at 31 December 2019 was £4,021.8m (2018: £4,544.1m). The profit for the financial year ended 31 December 2019 was £93.0m (2018: £483.1m).

Our UK Home business is undergoing a digital transformation, broadening its capabilities to enable the launch of innovative new propositions – including combined energy and services bundles – while improving data analytics and customer segmentation. Customer satisfaction levels have risen significantly, and we maintain strong market positions.

UK Home energy supply customer accounts fell by 286,000, although the rate of losses significantly reduced compared to 2018 against a backdrop of continued high levels of price competition and market switching. Net losses were also lower in the second half of the year compared to the first half and accounts remained broadly stable over November and December 2019. This reflects the launch of a number of attractive customer offers in the fixed price market, including increased sales of energy and services bundles.

We continue to focus on improving customer experience and our digital platforms, leading to a reduction in call volumes. We now have more 'online only' than 'offline only' UK energy supply customers. In January 2020, British Gas launched its new 'Green Future' tariff, one of the greenest tariffs on the market which offers customers green gas and renewable energy.

Our focus will be on continuing to improve the customer experience while moving towards becoming the lowest cost supplier by 2022. Achieving cost leadership will enable sustainable customer and margin growth. The cost per UK energy supply customer was £109 in 2019 compared to £103 in 2018, although the underlying figure in 2018 was £111 when excluding the impact of a one-off bad debt credit. The decrease in the underlying figure came despite the lower average number of customer accounts than in 2018 and the impact of inflation.

Our UK Business division is the largest energy supplier to small and medium enterprise (SME) customers in the UK and we retain a significant presence in the Industrial & Commercial market, where we focus on customers who want to take business services and solutions as well as energy supply. UK Business delivered growth in SME energy supply customer accounts, including from the online-only British Gas Lite tariff.

UK Business brand Net Promoter Score (NPS) increased by 13pts over the year to +1, reflecting further operational improvements and enhancements to our digital platform.

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 2006. 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 is fundamental to our long-term success.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 34-43 of the Group's Annual Report and Accounts 2019, which does not form part of this report.

The principal risks and uncertainties of the Company are political and regulatory intervention, strategic growth, exposure to movements in commodity prices and credit and liquidity risks.

Changes in government and regulatory policy, specifically relating to the UK Consumer Division's markets, could further erode our profit margins through price caps, or through additional obligations that increase operating costs. We are active in contributing our views on the development and regulation of the markets in which we operate. In relation to the UK energy market specifically, we have been in regular discussions with government, political parties and the regulator, Ofgem, to manage the risks of any intervention. We are committed to an open, transparent and competitive UK energy market that provides choice for consumers.

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 UK Government measures in response to the pandemic the Group became subject to a significant change in business environment, as well as implementing a number of material operational changes, in order to continue to serve and support its customers.

The Company is focused first on looking after the health and safety of employees and customers. This has included following advice from the government and relevant health organisations during the lockdown period. Call-centre services have been maintained during resultant temporary office closures by successfully transitioning to a remote working capability, thereby avoiding adverse impacts on our customers. We are also providing additional support where needed for our vulnerable customers.

The Company's operational resilience is supported by Centrica's Global Crisis Management team, which is operating a Pandemic Management Framework supported by existing business continuity plans. Current activity is centred around enabling and protecting call centre agents and field engineers with significantly increased home working capabilities for non-field staff avoiding major disruption to business support. While the situation is continually evolving, risks are being monitored and the business remains focused on ensuring continuity of service while supporting customers and employees.

Due to the economic challenges the country has faced as a result of stay-at-home measures and local restrictions implemented by the government in response to the pandemic, the energy industry has also faced increased risk around the recoverability of balances due from residential and business customers. At the date the accounts were authorised for issue, the Company is managing this risk, employing initiatives to meet the challenge and has not suffered a material increase in irrecoverable debt. The Company recognises that the ongoing economic uncertainty whilst these conditions prevail may increase the levels of bad debt in future, but is unable to quantify the financial impact with certainty.

The full impact of the pandemic on the Company is uncertain, but the Directors are confident that the measures taken to ensure the key priorities of the Company are protected put the Company in a strong position to be able to manage the resultant economic challenges.

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 12 months from the date the financial statements were authorised for issue. The Directors have assessed that while there are a range of future potential financial impacts upon the Group as a result of the pandemic, they have satisfied themselves that the Group will be able to support the Company if required under a reasonable worst-case scenario. See the Going Concern section of the Directors' Report on page 8.

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 for the year, 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 3.

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 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.

Approved by the Board on 17 December 2020 and signed on its behalf by:

Alan McCulloch
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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. 03078711

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

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:

G Barbaro (resigned 31 August 2020)

M S Hodges (resigned 28 February 2019)

R Roy

S Sambhi (resigned 11 June 2020)

C Miles (resigned 1 July 2019)

I E Ronald (resigned 5 July 2019)

M D Kirwan (appointed 1 April 2019 and resigned 31 August 2020)

S E Mussenden (appointed 1 July 2019)

A L Tavaziva (appointed 1 July 2019 and resigned 10 June 2020)

The following directors were appointed after the year end:

P M Simon (appointed 24 July 2020)

J P Pikunic (appointed 24 July 2020)

M J Bateman (appointed 28 August 2020)

Corporate governance

The Directors recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. Sound corporate governance enables clear and consistent delegation of authority from the Board to senior management and beyond in order to promote robust, informed and transparent decision-making. It also promotes effective stewardship to ensure the delivery of strategic objectives and sustainable success. It is the Board's responsibility to set the tone for the organisation including the right culture, values and behaviours that are intended to protect and promote the long-term success of the business.

We are formalising a robust and effective governance framework with corporate governance principles which support the execution of our strategy and remains consistent with Our Values.

Results and dividends

The results of the Company are set out on page 14. The profit for the financial year ended 31 December 2019 is £93.0m (31 December 2018: £483.1m).

On 21 December 2019, the Company paid an interim dividend of £500.0m to its immediate parent undertaking GB Gas Holdings Limited (2018: £500.0m). The Directors do not recommend a final dividend payment be made in respect of the financial year ended 31 December 2019 (2018: £nil).

The financial position of the Company is presented in the Statement of Financial Position on pages 16 and 17. Total equity at 31 December 2019 was £4,021.8m (2018: £4,544.1m).

Charitable donations

During the year the Company made contributions of £6.0m (2018: £7.8m) to the independent charity, the British Gas Energy Trust.

Financial instruments

Objectives and policies

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to commodity price risk, counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors. An energy management team manages energy market price and volumetric risks.

Exposure in terms of price risk, credit risk, liquidity risk and cash flow risk
The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk arises as a result of contracted or forecast sales of gas and electricity not being fully matched by the procurement contract with BGEPL with equivalent volumes, time periods and pricing. The risk is primarily that market prices for commodities will move adversely between the times that sales prices are fixed or tariffs are set and the times at which the purchase costs are fixed, thereby potentially reducing expected margins. The Group policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customer energy requirements. This policy is executed by BGEPL and reflected in the price the Company pays BGEPL for the commodity under the procurement contract.

Certain procurement and sales contracts constitute derivative financial instruments. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery. Refer to note 26 for details.

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Company continues to be vigilant in managing counterparty risks in accordance with its financial risk management policies. In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing to trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. An ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Employees
Safety is the number one priority of the Group and the focus in 2019 was to continue building safety capability across the business to keep our people and our customers safe. This continues to be priority in 2020.

The Group's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. The Group offers Sharesave, HMRC's Save As You Earn Scheme, and the Share Incentive Plan (SIP) with good levels of take-up across the Company.

The Company is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavour to retain employees in the workforce if they become disabled during employment.

The Group's commitment was recognised in January 2018 by achievement of level 1 Disability Confident Status and in 2017 they launched a Disability and Wellbeing Network to help employees impacted by disability to access the support they need to thrive at work. The Group supports The Valuable 500 initiative and champion disability inclusion throughout Centrica. Launched at the World Economic Forum's Annual Summit this year, The Valuable 500 seeks 500 global businesses to place disability inclusion on their board agenda as the first step to full inclusion for disabled people in business.

Employee engagement
The Company remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts at key points in the year.

The Group's Board acknowledges that employee engagement is critical to our success. During 2019, the Group began the work to embed the role of Employee Champion as an integral part of Centrica's governance framework. Using the output from employee discussions in 2018, the Group formalised the Employee Champion role in written terms of reference to ensure that its purpose was clear, it was well supported by Centrica, and there were mechanisms in place for reporting and feedback. Further information on employee engagement can be found on page 67 of the Group's Annual Report and Accounts 2019. Centrica's Employee Champion seeks to create an environment where each employee can reach their full potential and be at their best, and we can retain and develop the best talent to continue to deliver for our stakeholders.

Future developments
Future developments are discussed in the Strategic Report on page 6.

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 customers' 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 2 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. In July 2020 it was decided that management bonus payments would be cancelled. 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 (negative) credit rating on 28 July 2020 and S&P confirmed a BBB (negative) credit rating on 30 July 2020.

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.

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2019 and remain in force.

Non adjusting events after the financial period
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 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 our customers.

The full impact of the pandemic on the business is uncertain, but the Directors are confident that the measures taken to ensure the key priorities of the business are protected put the Group in a strong position to be able to manage the resultant economic challenges.

There is no impact on the results or financial position at 31 December 2019. It is not practicable, in light of the above, to determine an estimate of the financial impact of the pandemic at the date these financial statements were signed.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 17 December 2020 and signed on its behalf by:

Alan McCulloch

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

Company registered in England and Wales, No. 03078711
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

Independent Auditor's Report to the Members of British Gas Trading Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of British Gas Trading 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 29.

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 British Gas Trading 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.

Independent Auditor's Report to the Members of British Gas Trading Limited (continued)

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.

Dean Cook

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Dean Cook MA FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
1 New Street Square
Statutory Auditor
London
United Kingdom

Date: 17 December 2020

British Gas Trading Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ m	2018 £ m
Revenue	4	8,907.9	8,741.8
Cost of sales	5	(7,740.7)	(7,306.2)
Gross profit		1,167.2	1,435.6
Operating costs	5	(982.2)	(964.1)
Exceptional items - restructuring costs	7	(176.1)	(87.2)
Exceptional items - impairment of property, plant and equipment	7	-	(0.1)
Exceptional items - past service credit on defined benefit pension schemes	7	43.5	-
Exceptional items - provision for credit losses on financial assets	7	(80.5)	-
Operating (loss)/profit		(28.1)	384.2
Finance income	8	266.2	280.3
Finance costs	8	(77.1)	(92.9)
Net finance income		189.1	187.4
Profit before taxation		161.0	571.6
Taxation on profit	11	(68.0)	(88.5)
Profit for the year		93.0	483.1

The above results were derived from continuing operations.

British Gas Trading Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ m	2018 £ m
Profit for the year		93.0	483.1
Items that will be or have been reclassified to the Income Statement			
Gain/(loss) on cash flow hedges (net)		0.1	(0.9)
Items that will not be reclassified to the Income Statement			
Net actuarial (losses)/gains on defined benefit pension schemes	21	(144.9)	172.8
Taxation on net actuarial (losses)/gains on defined benefit pension schemes		24.6	(30.9)
		(120.3)	141.9
Other comprehensive (losses)/income		(120.2)	141.0
Total comprehensive (expense)/income for the year		(27.2)	624.1

British Gas Trading Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £ m	2018 £ m
Non-current assets			
Property, plant and equipment	12	37.2	50.5
Intangible assets	13	443.4	484.4
Deferred tax assets	11	-	3.5
Trade and other receivables	15	138.7	131.9
Retirement benefit assets	21	187.7	281.1
Derivative financial instruments	16	533.5	464.5
		1,340.5	1,415.9
Current assets			
Trade and other receivables	15	6,175.5	6,436.4
Inventories	17	12.1	12.0
Derivative financial instruments	16	1,420.4	624.1
Current tax assets	11	26.2	161.5
Cash and cash equivalents		16.9	42.3
		7,651.1	7,276.3
Total assets		8,991.6	8,692.2
Current liabilities			
Trade and other payables	19	(2,799.3)	(2,754.6)
Derivative financial instruments	26	(1,395.2)	(643.6)
Provisions for other liabilities and charges	20	(32.5)	(34.4)
Borrowings	18	(75.2)	(51.3)
		(4,302.2)	(3,483.9)
Total assets less current liabilities		4,689.4	5,208.3
Non-current liabilities			
Deferred tax liabilities	11	(55.5)	(85.5)
Trade and other payables	19	(20.8)	(25.0)
Derivative financial instruments	26	(530.2)	(469.9)
Provisions for other liabilities and charges	20	(14.5)	(17.0)
Borrowings	18	(46.6)	(66.8)
		(667.6)	(664.2)
Net assets		4,021.8	4,544.1
Equity			
Share capital	22	800.0	800.0
Share premium	22	447.2	447.2
Retained earnings	22	3,014.6	3,421.6
Cash flow hedging reserve	22	-	(0.1)
Share-based payments reserve	22	88.0	83.1
Actuarial gains and losses reserve	22	(328.0)	(207.7)
Total equity		4,021.8	4,544.1

The notes on pages 19 to 52 form an integral part of these financial statements.

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

The financial statement on pages 14 to 51 were approved and authorised for issue by the Board of Directors on 17. December 2020 and signed on its behalf by:

....

S E Mussenden
Director

Company number 03078711

British Gas Trading Limited

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

	Share capital £ m	Share premium £ m	Cash flow hedge reserve £ m	Share based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2019	800.0	447.2	(0.1)	83.1	(207.7)	3,421.6	4,544.1
Profit for the year	-	-	-	-	-	93.0	93.0
Other comprehensive income	-	-	0.1	-	(120.3)	-	(120.2)
Total comprehensive income	-	-	0.1	-	(120.3)	93.0	(27.2)
Dividends	-	-	-	-	-	(500.0)	(500.0)
Exercise of awards	-	-	-	(3.4)	-	-	(3.4)
Value of shares provided	-	-	-	8.3	-	-	8.3
At 31 December 2019	800.0	447.2	-	88.0	(328.0)	3,014.6	4,021.8

	Share capital £ m	Share premium £ m	Cash flow hedge reserve £ m	Share based payments reserve £ m	Actuarial gains and losses reserve £ m	Retained earnings £ m	Total equity £ m
At 1 January 2018	800.0	447.2	0.8	103.8	(349.6)	3,438.5	4,440.7
Profit for the year	-	-	-	-	-	483.1	483.1
Other comprehensive income	-	-	(0.9)	-	141.9	-	141.0
Total comprehensive income	-	-	(0.9)	-	141.9	483.1	624.1
Dividends	-	-	-	-	-	(500.0)	(500.0)
Exercise of awards	-	-	-	(27.4)	-	-	(27.4)
Value of shares provided	-	-	-	6.7	-	-	6.7
At 31 December 2018	800.0	447.2	(0.1)	83.1	(207.7)	3,421.6	4,544.1

The notes on pages 19 to 52 form an integral part of these financial statements.

1 General information

British Gas Trading 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 2 to 6.

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.

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly-owned subsidiary of Centrica plc. These financial statements present information about the Company as an individual undertaking and not about its group, and have been prepared on a going concern basis, as described in the Directors' Report.

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, British Gas Trading Limited sold the trade, net assets and certain unrealised commodity contracts (via back-to-back contractual arrangements) associated with the Centrica Energy business to a new legal entity within the Group: Centrica Energy Marketing Limited (CEML). The Company also sold the trade, net assets and unrealised commodity contracts (via back-to-back contractual arrangements) associated with procuring gas and power for our residential and business customers to a new specialist energy procurement legal entity within the Group: British Gas Energy Procurement Limited (BGEPL). These disposals were completed on 31 December 2013. On 2 January 2015, continuing the process to increase clarity and transparency in financial reporting, the Company sold its remaining beneficial interest in certain contracts via back-to-back agreements to CEML. As a result of this sale, certain commitments, previously held by the Company, were also transferred.

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

- IFRS 16: 'Leases'

The impact of adoption of IFRS 16 and the key changes to the accounting policy are disclosed below.

Changes resulting from adoption of IFRS 16

IFRS 16: 'Leases'
The Company adopted IFRS 16: 'Leases' from 1 January 2019. Adoption represents a significant change in accounting for lease arrangements in which the Company is a lessee as the standard mandates the on-balance sheet recognition of all lease liabilities and a corresponding right-of-use asset. In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17: 'Leases' or IFRIC 4: 'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or modified after that date the definition of a lease in IFRS 16 has been applied. On application of IFRS 16 comparative information has not been restated.

2 Accounting policies (continued)

The Company utilised the recognition exemptions for short-term leases that have a lease term of 12 months or less and for leases of low value assets (underlying asset value less than £5,000), including IT equipment. The lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term. The Company has also applied wherever applicable the following transition allowances:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment of whether leases are onerous in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- election not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition, the Company measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. For arrangements previously assessed as finance leases, the asset and liability balances at 31 December 2018 were carried forward as the opening IFRS 16 balances and subsequently measured in accordance with the new standard.

Application resulted in the recognition of both total lease assets and lease liabilities on 1 January 2019 of £64.5m. £64.5 million of the lease asset and lease liability is incremental to the IAS 17 position. Lease receivable assets are presented in current and non-current trade and other receivables, and contract-related assets in the Statement of Financial Position. Lease liabilities are included in current and non-current borrowings.

A reconciliation of the IAS 17 finance lease asset and finance lease liability at 31 December 2018 to the opening IFRS 16 lease asset and lease liability is shown below, along with a summary of the key judgements applied by the Company in determining these opening positions:

	£ m
Finance lease liabilities at 31 December 2018	(101.4)
Re-measurement of Spalding tolling contract	(64.5)
IFRS 16 lease liability at 1 January 2019	(165.9)

The weighted average incremental borrowing rate used by the Company for IFRS 16 is 3%.

	£ m
Finance lease assets at 31 December 2018	134.6
Re-measurement of Spalding tolling contract	64.5
	199.1

2 *Accounting policies (continued)*

Significant Changes in the Company's Accounting Policy applicable from 1 January 2019

Leases

Definition of a lease
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

As a lessee
The Company recognises a lease asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounting using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Leases payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, lease-term extension or termination option.

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

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;
- prior year reconciliations for property, plant and equipment and intangible assets;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

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 IAS 36 'Impairment of Assets' in respect of the impairment of goodwill and indefinite life intangible assets;
- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value;
- certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company; and
- disclosures of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

Measurement convention

The financial statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101; derivative financial instruments, available for sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition and the Company's share of the assets of the Group's defined benefit pension schemes that have been measured at fair values; the Company's share of the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying value of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

Departures from requirements of the Companies Act 2006 and their financial impact

The Company has used a true and fair override in respect of the non-amortisation of goodwill.

The UK Companies Act 2006 requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 'Business Combinations' goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act 2006. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

2 Accounting policies (continued)

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 customers' 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 2 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. In July 2020 it was decided that management bonus payments would be cancelled. 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 (negative) credit rating on 28 July 2020 and S&P confirmed a BBB (negative) credit rating on 30 July 2020.

Exemption from preparing group accounts
The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling company, Centrica plc.

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

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

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

2 Accounting policies (continued)

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.

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

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.

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.

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

2 Accounting policies (continued)

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

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill (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.

Other intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads.

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

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

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

Renewable obligation certificates (ROCs)
A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period. ROCs are acquired by BGEPL on behalf of the Company. These are transferred at cost to the Company at the end of the compliance period whereupon the intangible asset is surrendered and the liability is utilised to reflect the consumption of economic benefits. As a result no amortisation is recorded during the period. Any recycling benefit related to the submission of ROCs is recognised in the Income Statement when received.

Amortisation
Intangible assets subject to amortisation is provided so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Contractual customer relationships	Straight line, up to 20 years
Application software	Straight line, up to 15 years

2 Accounting policies (continued)

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

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

Depreciation of PP&E
The depreciation periods for the principal categories of assets are as follows:

Asset class	Depreciation method and rate
Plant	Straight line, between 5 and 20 years
Equipment and vehicles	Straight line, between 3 and 10 years

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

Assets held as right-of-use assets are depreciated over their expected useful lives on the same basis as for owned assets, or where shorter, the lease term.

Investments in subsidiaries
Fixed asset investments in subsidiaries are held at deemed cost on transition to FRS 101 and in accordance with IAS 27, less any provision for impairment as necessary.

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

Levy Exemption Certificates ('LECs')
LECs are sold to certain business customers in order for them to save Climate Change Levy, which was introduced in the UK following signing of the Kyoto Protocol. LECs are held in the Statement of Financial Position as inventory to the extent more have been produced than have been sold onto customers. LECs are held at the lower of cost and net realisable value. The cost of purchasing LECs is recognized in cost of sales when sold to the customer.

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

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

Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced retail sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

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.

Impairment

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill shall not be reversed in a subsequent period. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

The Company provides for impairments of financial assets when there is objective evidence of impairment as a result of events that impact the estimated future cash flows of the financial assets.

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.

2 Accounting policies (continued)

- 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.

- 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
See 'Key sources of estimation uncertainty' (note 3) for the detailed accounting policy applied by the Company for derivative financial instruments in these Financial Statements.

- Hedge accounting - cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income Statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Energy Company Obligation ('ECO')

The Energy Company Obligation ('ECO') order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households. Targets are set in proportion to the size of historic customer bases. ECO phase 1 and ECO phase 2 had delivery dates of 31 March 2015 and 30 September 2018 (extended from 31 March 2017), respectively.

ECO phase 3 is currently effective with a delivery date of 31 March 2022. Although this phase includes certain sub-obligations, there are no interim targets and, consistent with previous years, the Company continues to judge that it is not legally obligated by the order until delivery date. Accordingly, the costs of delivery are recognised as incurred, when cash has been spent or unilateral commitments made, resulting in obligations that could not be avoided.

Metering contracts

In 2015, as part of the smart meter roll-out, the Company renewed meter rental arrangements with third parties, with a further extension of one contract in 2018. The Company assessed that these were not leases under IAS 17 and IFRIC 4 because at inception of the contract there were no specified assets, the Company 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.

One of the meter rental arrangements was renegotiated during 2019 and a reassessment of the contract was performed in accordance with IFRS 16. On the basis that the asset has a predetermined use and the Company 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.

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.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

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 which will flow to the Company, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Company 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 adjustments for imbalance at 31 December 2019 are not significant. However, changes resulting from these management estimates can be material with adjustments of up to £30 million having been made in the last few years.

Industry reconciliation process - cost of sales
Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Company, 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 lower value of industry deemed supply than has been estimated as being supplied to customers by the Company, but in practice tends to result in a higher value of industry deemed supply. The Company 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 Company's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Derivative financial instruments
The Company (BGTL) routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back-to-back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited ('CEML'), a Group company. The Company also enters into back-to-back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited ('BGEPL'), also a Group company. The back-to-back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts.

The purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IFRS9 due to the fact that the original contracts entered into by BGTL and the related back-to-back arrangements constitutes a practice of taking delivery and selling in a short span of time. Such contracts are accounted for as derivatives under IFRS9 and are recognised in the Company's Statement of Financial Position at fair value. Due to the beneficial interest contracts also being in the scope of IFRS9, and matching the underlying derivative contracts, this has the effect of grossing-up the Statement of Financial Position for the Company.

BGTL has entered into an agreement with BGEPL in which BGEPL agreed to source commodities as requested by BGTL, the price for which is determined by the back-to-back contracts entered into by BGEPL. This separate contract has been deemed to be an own-use contract for the Company since it only pays for commodities delivered and will only call on commodity purchases to meet its downstream demand. BGEPL is considered to be a principal in the transaction as it assumes the risk and rewards of balancing the purchase and sales contracts to meet the commodity needs of the Company.

The Company uses a range of derivatives to hedge exposures to financial risks, such as 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, Centrica plc, on pages 34 to 43 and in note S3.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

The accounting treatment for derivatives is also dependent on whether they are designated as hedges in a hedge accounting relationship. A derivative instrument qualifies for hedge accounting when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Company also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when 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.

Derivatives entered into for speculative energy trading purposes are classified as a current asset or liability. 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.

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 provided 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.

Gains and losses arising from changes in fair value on business energy sales contracts derivatives that do not qualify for hedge accounting are taken directly to the Income Statement as revenue for the year.

Pensions and other post-employment benefits
The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

Further detail is provided in note 21 to the Financial Statements.

Credit provisions for trade and other receivables
The provision for credit losses for trade receivables, contract assets and lease receivables is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. A default rate is calculated according to historical loss experience and applied to trade receivables with similar characteristics, including consideration of the nature of the customer and, where relevant, the sector in which they operate, the payment method selected and the timeliness of the payment based on historical trends. The characteristics used to determine the groupings of receivables are considered to be 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 and subsequently in monthly increments. Balances are written off when recoverability is assessed as being remote. The impairment charge in trade receivables is stated net of creditors for the release of specific provisions made in previous years, which are no longer required.

4 Revenue

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

	2019 £ m	2018 £ m
Energy supply to residential customers	6,807.6	6,915.1
Energy supply to business customers [(i)]	2,100.3	1,826.7
	8,907.9	8,741.8

All revenue arose from activities in the United Kingdom.

[(i)] Revenue from energy supply to business customers contains unrealised mark to market gains of £53.3m (2018: £10.2m losses)

The Company applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligation in accordance with Paragraph B16, as described in note 2.

5 Analysis of costs by nature

	2019 Cost of sales £ m	2019 Operating costs £ m	2019 Total costs £ m	2018 Cost of sales £ m	2018 Operating costs £ m	2018 Total costs £ m
Transportation, distribution and metering costs	(2,759.8)	-	(2,759.8)	(2,656.9)	-	(2,656.9)
Commodities costs	(3,254.0)	-	(3,254.0)	(3,142.5)	-	(3,142.5)
Depreciation, amortisation, impairment and write-downs	-	(122.6)	(122.6)	-	(121.8)	(121.8)
Employee costs	(95.9)	(347.3)	(443.2)	(116.1)	(354.9)	(471.0)
Impairment of trade receivables	-	(105.7)	(105.7)	-	(86.8)	(86.8)
Operating lease expense - vehicle	-	-	-	-	(9.9)	(9.9)
Other operating costs	(1,631.0)	(406.6)	(2,037.6)	(1,390.7)	(390.7)	(1,781.4)
Total costs by nature	(7,740.7)	(982.2)	(8,722.9)	(7,306.2)	(964.1)	(8,270.3)

6 Employees' costs

The disclosures in this note reflect the costs and number of all Centrica plc Group employees that work in the British Gas Trading Limited ('BGTL') business regardless of whether they have a contract of employment with BGTL or another Group company. Certain of these employees provide services to certain fellow subsidiaries for which those fellow subsidiaries are recharged. The staff costs of these employees are included in the disclosures below and a separate recharge included in other operating costs. The Directors believe that the disclosures given on this basis are the fairest representation of the cost and number of people working in the BGTL business.

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

	2019 £ m	2018 £ m
Wages and salaries	(346.0)	(385.7)
Social security costs	(37.6)	(33.3)
Pension and other post-employment benefits	(51.0)	(45.0)
Share-based payment expenses	(8.6)	(7.0)
	(443.2)	(471.0)

The average monthly number of persons employed by the Company (including Directors) during the year was 9,481 (2018: 10,785). All employees were administrative and sales staff, employed in the United Kingdom.

7 Exceptional items

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

	2019 £ m	2018 £ m
Exceptional items - restructuring costs [(i)]	(176.1)	(87.2)
Exceptional items - past service credit on defined benefit pension schemes	43.5	-
Exceptional items - impairment of property, plant and equipment	-	(0.1)
Exceptional items - provision for credit losses on financial assets [(ii)]	(80.5)	-
	(213.1)	(87.3)

[(i)] Following the extensive strategic review announced in 2015, the Company has incurred restructuring costs implementing the new organisational model relating principally to redundancy costs, impairment of assets on the closure of businesses, consultancy costs and additional costs associated with the making good of product defects.

[(ii)] In 2019 a provision for credit losses on financial assets of £80.5m (2018: £nil) was recognised, this is a provision against amounts owed by Group undertakings.

8 Net finance income/cost

Finance income

	2019 £ m	2018 £ m
Interest income from amounts owed by Group undertakings	232.0	229.0
Interest income on assets under lease	17.4	27.9
Contingent rents received in respect of leases	-	15.9
Interest income on bank deposits	1.6	0.5
Net foreign exchange gains on financing transactions	4.9	-
Other finance income	10.3	7.0
Total finance income	266.2	280.3

Finance cost

	2019 £ m	2018 £ m
Interest on amounts owed to Group undertakings	(51.6)	(42.8)
Contingent rents paid in respect of leases	(20.5)	(40.1)
Interest expense on lease liabilities (2018: finance leases)	(4.0)	(6.7)
Interest expense on bank overdrafts and borrowings	(1.0)	(1.1)
Net foreign exchange losses on financing transactions	-	(2.2)
Total finance costs	(77.1)	(92.9)
Net finance income	189.1	187.4

9 Directors' remuneration

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

10 Auditor's remuneration

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

	2019 £ m	2018 £ m
Audit fees	(0.1)	(0.1)

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

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

11 Income tax

Tax credited/(charged) in the Income Statement

	2019 £ m	2018 £ m
Current taxation		
UK corporation tax at 19% (2018: 19%)	(54.4)	(116.6)
UK corporation tax adjustment to prior periods	(15.5)	16.8
	(69.9)	(99.8)
Deferred taxation		
Origination and reversal of temporary differences	5.9	8.8
Changes in tax rates	-	1.3
Adjustment in respect of prior period	(4.0)	1.2
Total deferred taxation	1.9	11.3
Taxation on loss	(68.0)	(88.5)

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%. The deferred tax balances provided in these financial statements reflect the enacted rate of 17%; when the Finance Bill 2020 is enacted the impact on deferred tax balances is not expected to be material.

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 £ m	2018 £ m
Profit before tax	161.0	571.6
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	(30.6)	(108.6)
Increase (decrease) in current tax from adjustment for prior periods	(19.5)	18.0
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	(15.8)	0.3
Increase (decrease) arising from group relief tax reconciliation	(7.4)	(3.6)
Increase (decrease) from transfer pricing adjustments	7.4	3.6
Deferred tax expense (credit) relating to changes in tax rates or laws	(0.7)	1.3
Other tax effects for reconciliation between accounting profit and tax expense (income)	(1.4)	0.5
Total tax charge	(68.0)	(88.5)

11 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:

	Accelerated tax depreciation £000	Other items £000	Pensions £000	Total £ m
1 January 2019	(5.4)	(30.3)	(46.3)	(82.0)
Charged/(credited) to the Income Statement	(2.0)	12.6	(8.7)	1.9
Charged/(credited) to other comprehensive income	-	-	24.6	24.6
31 December 2019	(7.4)	(17.7)	(30.4)	(55.5)

	Accelerated tax depreciation £000	Other items £000	Pensions £000	Total £ m
1 January 2018	(14.3)	(31.8)	(16.3)	(62.4)
Charged/(credited) to the Income Statement	8.9	1.5	0.9	11.3
Charged/(credited) to other comprehensive income	-	-	(30.9)	(30.9)
31 December 2018	(5.4)	(30.3)	(46.3)	(82.0)

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

	2019		2018	
	Assets £ m	Liabilities £ m	Assets £ m	Liabilities £ m
Gross deferred tax balances crystallising within one year	-	3.4	2.3	(5.0)
Gross deferred tax balances crystallising after one year	-	(58.9)	1.2	(80.5)
	-	(55.5)	3.5	(85.5)

Deferred tax recognised directly in equity of £24.6m (credit) (2018: £30.9m) relates to the Company's share of actuarial losses in the year on the remeasurement of Group pension scheme assets and liabilities.

12 Property, plant and equipment

	Plant, equipment and vehicles £ m
Cost	
At 1 January 2019	141.7
Additions	6.8
Disposals and surrenders	(4.6)
At 31 December 2019	143.9
Accumulated depreciation and impairment	
At 1 January 2019	(91.2)
Charge for the year	(17.6)
Disposals and surrenders	3.8
Impairment (i)	(1.7)
At 31 December 2019	(106.7)
Net book value	
At 31 December 2019	37.2
At 31 December 2018	50.5

(i) Impairment charges of £1.7m relate to the accelerated depreciation of leasehold improvement assets across a number of sites that the Company has agreed to exit.

Expenditure recognised in the carrying amount of property, plant and equipment in the course of construction was as follows:

	2019 £ m	2018 £ m
Plant, equipment and vehicles	2.8	7.1

13 Intangible assets

	Customer relationships and brands £ m	Application software £ m	Goodwill £ m	Total £ m
Cost or valuation				
At 1 January 2019	45.1	1,040.1	33.2	1,118.4
Additions and capitalised borrowing costs	-	64.0	-	64.0
Disposals and surrenders	-	(15.8)	-	(15.8)
At 31 December 2019	45.1	1,088.3	33.2	1,166.6
Amortisation				
At 1 January 2019	(40.7)	(593.3)	-	(634.0)
Amortisation	(0.8)	(95.5)	-	(96.3)
Disposals and surrenders	-	7.1	-	7.1
At 31 December 2019	(41.5)	(681.7)	-	(723.2)
Carrying amount				
At 31 December 2019	3.6	406.6	33.2	443.4
At 31 December 2018	4.4	446.8	33.2	484.4

Individually material intangible assets

Goodwill acquired through business combinations has been allocated for impairment testing purposes to individual CGUs or groups of CGUs as follows:

	Year of acquisition	CGU	Carrying amount £m
Trade and assets of Enron Direct	2001	UK Business	11.1
Trade and assets of Electricity Direct (UK) Limited	2005	UK Business	11.6
ECL Investments Limited and ECL Contracts Limited	2011	UK Home	4.4
Hillserve Limited	2011	UK Home	5.2
British Gas Direct Employment Limited	2012	UK Home	0.9
			33.2

Software assets include the customer relationship management system for UK Home Energy. The net book value of these assets is £99m and the remaining useful economic life over which the asset will be amortised is 6 years.

14 Investments

The Company retains 100 ordinary shares of £1 in British Gas X Limited (previously Tillicum Energy Limited), representing 100% ownership.

The Company retains a £1 ordinary share in British Gas Energy Procurement Limited, a 100% subsidiary undertaking in this year and last.

The Company also continues to hold a £100 investment in each of Finance Scotland CEPS Limited Partnership and Finance Scotland CPP Limited Partnership, both registered in Scotland.

14 Investments (continued)

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

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2019	2018
British Gas Energy Procurement Limited*	Energy supply	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom	Ordinary shares	100%	100%
British Gas X Limited*	Energy Supply	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom	Ordinary shares	100%	100%
Better Home Care Services Limited*	Other information technology service activities	24 Park Road South, Havant, Hampshire, PO19 1HB, United Kingdom	Ordinary shares	43.7%	0%

* indicates direct investment of the Company

Associates

	Total £ m
Cost or valuation	
Additions	1.0
At 31 December 2019	1.0
Provision	
Provision	(1.0)
At 31 December 2019	(1.0)
Carrying amount	
At 31 December 2019	-

On 9 July 2019 the Company agreed to capitalise a loan of £389,000 to Better Home Care Services Limited (trading as "Lifted"). The debt was extinguished in consideration for 333 Ordinary Shares. The Company simultaneously subscribed for a further 444 Ordinary Shares for consideration of £600,000. This gives the Company a total shareholding of 43.725%. Subsequently, a provision for impairment was recognised for the full value of the investment.

15 Trade and other receivables

	2019		2018	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade receivables	1,179.5	-	1,180.7	-
Provision for impairment of trade receivables	(477.3)	-	(482.9)	-
Net trade receivables	702.2	-	697.8	-
Amounts owed by Group undertakings	4,746.0	-	5,058.8	-
Lease receivables owed by Group undertakings	73.2	60.1	41.7	92.9
Accrued energy income	550.2	-	551.9	-
Prepayments	41.0	53.7	30.2	26.6
Other receivables	41.5	-	47.7	-
Contract assets	21.4	24.9	8.3	12.4
	6,175.5	138.7	6,436.4	131.9

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 £3,455.6m (2018: £3,009.0m) due from Centrica plc and £2,150m (2018: £2,150m) due from Centrica Holdings Limited that bear 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.

Finance lease receivables

2019	Minimum lease payments £ m	Finance charges £ m	Present value £ m
Within one year	83.6	(10.4)	73.2
In two to five years	62.4	(2.3)	60.1
	146.0	(12.7)	133.3

2018	Minimum lease payments £ m	Finance charges £ m	Present value £ m
Within one year	62.6	(20.9)	41.7
In two to five years	109.0	(16.1)	92.9
	171.6	(37.0)	134.6

The present values of future finance lease payments are analysed as follows:

	31 December 2019 £ m	31 December 2018 £ m
Current assets	73.2	41.7
Non-current assets	60.1	92.9
	133.3	134.6

16 Derivative financial instruments - Assets

	2019		2018	
	Current £m	Non-current £ m	Current £m	Non-current £ m
Derivative financial instruments	1,420.4	533.5	624.1	464.5

Note 26 provides further detail on the fair value of financial instruments.

Derivative financial assets include amounts due from Group undertakings of £1,528.5m (2018: £482.3m).

17 Inventories

	2019 £ m	2018 £ m
Raw materials and consumables	11.9	11.6
Finished goods and goods for resale	0.2	0.4
	12.1	12.0

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

18 Loans and borrowings

	31 December 2019 £ m (i)	31 December 2018 £ m
Non-current bank overdrafts, loans and borrowings		
Lease liabilities	(46.6)	(66.8)

	31 December 2019 £ m	31 December 2018 £ m
Current bank overdrafts, loans and borrowings		
Bank overdrafts	(14.7)	(16.7)
Lease liabilities	(60.5)	(34.6)
	(75.2)	(51.3)

Following the adoption of IFRS 16 on 1 January 2019, the Company has recognised incremental lease liabilities and sub-lease assets within loans and borrowings. See note 1 for further details.

Bank overdrafts
Bank overdrafts are repayable on demand and attract variable interest of LIBOR plus 1%.

18 Loans and borrowings (continued)

Lease liabilities

The Company entered into a lease arrangement in respect of its long-term tolling contract with Spalding power station. This arrangement provides the Company with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments.

The undiscounted minimum lease payments at the end of the reporting year are as follows:

	2019 £ m	2018 £ m
Not later than one year	(62.7)	(39.4)
Later than one year and not later than five years	(47.0)	(70.0)
	(109.7)	(109.4)

The present values of future finance lease payments are analysed as follows:

	31 December 2019 £ m	31 December 2018 £ m
Not later than one year	(60.5)	(34.6)
Later than one year and non later than five years	(46.6)	(66.8)
	(107.1)	(101.4)

19 Trade and other payables

	2019		2018	
	Current £ m	Non-current £ m	Current £ m	Non-current £ m
Trade payables	(162.5)	-	(138.3)	-
Transportation accruals	(250.1)	-	(231.9)	-
Accrued expenses and deferred income	(575.4)	(20.8)	(585.1)	(25.0)
Amounts owed to Group undertakings [(ii)]	(1,234.2)	-	(1,267.6)	-
Social security and other taxes	(39.0)	-	(26.2)	-
Other payables [(i)]	(538.1)	-	(505.5)	-
	(2,799.3)	(20.8)	(2,754.6)	(25.0)

[(i)] Other payables includes a liability for renewable obligation certificates of £487.2m (2018: £450.3m).

[(ii)] Amounts owed to Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed to Group undertakings is £805.6m (2018: £770.1m) 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 to Group undertakings are interest-free. All amounts owed to Group undertakings are unsecured and repayable on demand.

20 Provisions for other liabilities and charges

	Restructuring £ m	Onerous contracts £ m	Other provisions £ m	Total £ m
At 1 January 2019	(17.8)	(0.3)	(33.3)	(51.4)
Charged to the Income Statement	(175.0)	-	(119.6)	(294.6)
Provisions used	133.5	-	136.5	270.0
Transfer to pensions	29.0	-	-	29.0
At 31 December 2019	(30.3)	(0.3)	(16.4)	(47.0)
Non-current liabilities	(2.7)	-	(11.8)	(14.5)
Current liabilities	(27.6)	(0.3)	(4.6)	(32.5)

Restructuring

The provision predominantly relates to costs reduction programmes. Utilisation is expected within one year, except for a provision for the additional costs of making good defects on products which is expected to be utilised within five years.

Onerous sales contracts

The onerous contract provision reflects the construction services business expecting to incur penalties for having exited sales contracts early, as a result of the decision to close the business. Utilisation is expected within one year.

Other provisions

The provision at 31 December 2019 includes £1.4m in relation to employer's national insurance charges expected to arise at exercise dates on employee share schemes (2018: £0.9m), £12.1m in relation to smart metering costs (2018: £15.8m), £nil in relation to a Capacity Market provision (2018: £14m), £1.3m in relation to a construction costs dispute (2018: £1.4m) and £1.6m in relation to other minor provisions (2018: £1.2m). The expected utilisation profile is as follows: £4.6m within one year and £11.8m within one to five years.

21 Pension and other schemes

Defined benefit pension schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), Centrica Engineers Pension Scheme (CEPS) and Centrica Unfunded Pension Scheme (CUPS). 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.

The 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.

21 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities

The amounts recognised in the Statement of Financial Position are as follows:

	2019 Assets (£m)	2019 Liabilities (£m)	2019 Total (£m)	2018 Assets (£m)	2018 Liabilities (£m)	2018 Total (£m)
1 January	2,550.9	(2,269.8)	281.1	3,005.1	(2,894.1)	111.0
Items included in the Income Statement:						
Current service cost	-	(13.1)	(13.1)	-	(23.7)	(23.7)
Contributions by employer in respect of employee salary sacrifice arrangements	4.8	(4.8)	-	-	-	-
Past service cost/(credit)	-	43.5	43.5	-	(7.8)	(7.8)
Loss on curtailment	-	-	-	-	(0.9)	(0.9)
Interest income/(expense)	74.5	(64.2)	10.3	80.8	(73.8)	7.0
Other movements:						
Return on plan assets, excluding interest income	(1.1)	-	(1.1)	-	-	-
Re-measurement gains/(losses)	-	(143.7)	(143.7)	(459.9)	633.4	173.5
Employer contributions	41.8	-	41.8	26.0	-	26.0
Plan participants contributions	0.2	(0.2)	-	0.2	(0.2)	-
Benefits paid from schemes	(77.1)	77.1	-	(91.2)	91.2	-
Transfers from provisions for other liabilities and charges	-	(31.1)	(31.1)	-	(4.0)	(4.0)
31 December	2,594.0	(2,406.3)	187.7	2,561.0	(2,279.9)	281.1

Presented in the Statement of Financial Position as:

	2019 (£m)	2018 (£m)
Retirement benefit assets	187.7	281.1
	187.7	281.1

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

	2019 £ m	2018 £ m
Actuarial loss (actual return less expected return on pension scheme assets)	-	(459.9)
Return on plan assets, excluding interest income	(1.1)	-
Experience gain/(loss) arising on the scheme liabilities	76.9	(4.7)
Changes in assumptions underlying the present value of the schemes' liabilities	(220.7)	638.1
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(247.8)	(421.3)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(392.7)	(247.8)

21 Pension and other schemes (continued)

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 £8.5m of employer contributions during 2019 at an average rate of 16.1% of pensionable pay together with contributions via the salary sacrifice arrangement of £5m.

Although the Group has established a new funding arrangement in the year based on the position as at 31 March 2018, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

Pension scheme assets

The major categories of scheme assets are as follows:

	2019			2018		
	Quoted £ m	Unquoted £ m	Total £ m	Quoted £ m	Unquoted £ m	Total £m
Equities	187.6	346.4	534.0	1,991.0	351.0	2,342.0
Corporate bonds	2,645.7	-	2,645.7	1,118.0	-	1,118.0
High-yield debt	1,015.4	1,287.8	2,303.2	595.0	1,360.0	1,955.0
Liability matching assets	1,430.5	1,075.3	2,505.8	1,581.0	994.0	2,575.0
Property	-	316.3	316.3	-	395.0	395.0
Cash pending investment	695.1	-	695.1	102.0	-	102.0
Asset-backed contribution assets	-	-	-	-	802.0	802.0
Group pension scheme assets [i]	5,974.3	3,025.8	9,000.1	5,387.0	3,902.0	9,289.0
Company share of the above (£'000)	1,721.9	872.1	2,594.0	1,485.2	1,075.8	2,561.0

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

Defined contribution pension scheme

The total cost charged to Income Statement of £23.8m (2018: £21.5m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

22 Capital and reserves

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	800,000,100	800,000,100	800,000,100	800,000,100

Authorised share capital

The Company has no authorised share capital, as permitted by the provisions of the Companies Act 2006.

Share premium

Consideration transferred in excess of the nominal value of ordinary shares is allocated to share premium.

22 Capital and reserves (continued)

Cash flow hedge reserve
The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IFRS 9. Amounts are transferred from the cash flow hedging reserve to the Income Statement or the Statement of Financial Position as and when the hedged item affects the Income Statement or the Statement of Financial Position which is, for the most part, on receipt or payment of amounts denominated in foreign currencies.

Actuarial gains and losses reserve
Cumulative actuarial losses on the defined benefit scheme are recognised in reserves.

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.

Share-based payments reserve
The share-based payments reserve reflects the obligation to deliver shares to employees under the existing share schemes in return for services provided to the Company.

23 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in seven employee share schemes which gave rise to a charge of £8.6m (2018: £7.0m) which is shown under the financial line item 'operating costs'. Over 75% of this share-based payment charge arose from three schemes: Deferred and Matching Share Scheme (DMSS), Long Term Incentive Scheme (LTIS) and the Share Award Scheme (SAS).

Deferred and Matching Share Schme

Awards under the DMSS are generally reserved for employees within the Senior Executive group; from 2015 this scheme was replaced by the AIP and LTIP for Executive Directors and the OTIP for Senior Executives and senior management. The vesting period is four years, comprising bonus year and three-year performance period. Participants must defer between 20% and 40% of annual pre-tax bonus into the scheme (as deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (as investment shares). Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over the three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years. Performance is measured through Group and segment Economic Profit (EP) targets. Leaving prior to the vesting date will normally mean forfeiting rights to deferred and matching shares. Further information on the operation of the DMSS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 82 to 99 of the Centrica plc 2019 Annual Report and Accounts.

Long Term Incentive Scheme

Awards under the LTIS are available to employees within senior management. From 2015 this scheme was replaced by the AIP and LTIP for Executive Directors and OTIP for Senior Executives and senior management. The vesting period is three years following the grant date. For grants after 2012 the number of shares awarded is calculated according to EPS, Group EP, total shareholder return (TSR) and non-financial KPIs. Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years. Leaving prior to the vesting date will normally mean forfeiting rights. Further information on the operation of the LTIS, AIP, LTIP and OTIP, and the related performance conditions can be found on pages 82 to 99 of the Centrica plc 2019 Annual Report and Accounts.

Share Award Scheme

Allocation of shares in Centrica plc under the SAS are made to selected employees at senior and middle management levels. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group in two stages: half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. Leaving prior to the vesting date will normally mean forfeiting rights.

23 Share-based payments (continued)

On Track Incentive Plan

Awards under the OTIP are available to Senior Executives, senior and middle management. Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the unvested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on pages 82 to 99 of the Centrica plc 2019 Annual Report and Accounts.

Sharesave

All UK and Ireland employees of Centrica plc are entitled to participate in the HMRC-approved Sharesave. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for three days prior to invitation, which is three to four weeks prior to the grant date. Maximum contribution limits are set by legislation and the levels of participation allowed are within these limits and apply to all participants. Employees pay a monthly fixed amount into a savings account and may elect to save over three or five years. At the end of the savings period, employees have six months to exercise their options or withdraw the saved funds. Further information on the operation of the scheme can be found on pages 82 to 99 of the Centrica plc 2019 Annual Report and Accounts.

24 Dividends

	31 December 2019 £ m	31 December 2018 £ m
Final dividend of £Nil (2018 - £Nil) per ordinary share	-	-
Interim dividend of £0.625 (2018 - £0.625) per ordinary share	500	500
	500	500

On 11 December 2019 the Company paid an interim dividend of £500m (2018: £500m) to its immediate parent undertaking, GB Gas Holdings Limited. The Directors do not recommend the payment of a final dividend (2018: £nil).

25 Commitments and contingencies

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back-to-back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited (CEML), a Group company. The Company also enters into back-to-back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited (BGEPL), also a Group company. The back-to-back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts. It is noted that these contracts are transferred via back-to-back agreements and therefore where such back to back agreements exist no commitments have been disclosed in these financial statements.

The Company also signed an agreement with BGEPL in which BGEPL agreed to source commodities as required by the Company the price for which is determined by the back to back contracts entered into by BGEPL. A fixed fee of £42m per annum (indexed) is payable by the Company under the terms of this contract to reflect the activities and elements of risk taken on by BGEPL. The agreement remains operational until both parties agree to terminate the agreement. No commitments associated with this contract have been included in the disclosures below.

Contractual commitments in relation to other contracts

As at 31 December 2019, the Company has the following commitments, based on minimum contractual quantities (per contractual terms entered into), commodity purchase prices and foreign exchange rates as at the reporting date.

25 Commitments and contingencies (continued)

	2019 £ m	2018 £ m
LNG capacity	425.0	555.9
Transportation capacity	110.0	126.1
Energy Company Obligation	15.3	9.7
Outsourcing of services	19.1	39.8
Smart meter arrangement with MAPs	123.5	100.5
Other commitments	37.2	18.6
	730.1	850.6

On 31 December 2013, as part of a process to increase clarity and transparency in financial reporting, the Company sold its beneficial interest in its commodity purchase contracts to two newly formed entities within the Group: BGEPL and CEML. Concurrently, the Company received a guarantee from GB Gas Holdings Limited in relation to all obligations in connection with these contracts transferred to BGEPL and CEML.

26 Fair value of financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. Simultaneously, the Company enters into back-to-back contractual arrangements associated with the Energy Marketing and Trading business with Centrica Energy Marketing Limited, a Group company. The Company also enters into back-to-back contractual arrangements associated with procuring gas and power for residential and business customers with British Gas Energy Procurement Limited, also a Group company. The back-to-back arrangements entered into by BGTL see the beneficial interest of all underlying contracts transferred to CEML and BGEPL. CEML and BGEPL thus assume the risks and rewards associated with these contracts.

The 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 the original contracts entered into by BGTL and the related back-to-back arrangements constitutes a practice of taking delivery and selling in a short space of time. Such contracts are accounted for as derivatives under IFRS 9 and are recognised in the Company's statement of financial position at fair value. Due to the beneficial interest contracts also being in the scope of IFRS 9, and matching the underlying derivative contracts, this has the effect of grossing-up the Statement of Financial Position for the Company.

BGTL has entered into an agreement with BGEPL in which BGEPL agreed to source commodities as requested by BGTL, the price for which is determined by the back-to-back contracts entered into by BGEPL. This separate contract has been deemed to be an own-use contract for the Company since it only pays for commodities delivered and will only call on commodity purchases to meet its downstream demand. BGEPL is considered to be a principal in the transaction as it assumes the risk and rewards of balancing the purchase and sales contracts to meet the commodity needs of the Company.

See 'Key sources of estimation uncertainty' (note 3) for the detailed accounting policy applied by BGTL for derivative financial instruments in these financial statements.

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc.

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.

26 Fair value of financial instruments (continued)

Fair value hierarchy

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

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

26 Fair value of financial instruments (continued)

Financial instruments carried at fair value

	31 December 2019			31 December 2018		
	Fair value and carrying value £ m	**Level 2 £ m**	**Level 3 £ m**	**Fair value and carrying value £ m**	**Level 2 £ m**	**Level 3 £ m**
Derivative financial assets - held for trading under IFRS9						
Energy derivatives	1,935.1	1,233.7	701.4	1,057.4	519.3	538.1
Foreign exchange derivatives	18.6	18.6	-	31.2	31.2	-
Derivative financial assets - in hedge accounting relationships						
Foreign exchange derivatives	0.2	0.2	-	-	-	-
Total financial assets at fair value	1,953.9	1,252.5	701.4	1,088.6	550.5	538.1
Derivative financial liabilities - held for trading under IFRS9						
Energy derivatives	(1,906.6)	(1,205.2)	(701.4)	(1,081.6)	(543.5)	(538.1)
Foreign exchange derivatives	(18.6)	(18.6)	-	(31.2)	(31.2)	-
Derivative financial liabilities - in hedge accounting relationships						
Foreign exchange derivatives	(0.2)	(0.2)	-	(0.7)	(0.7)	-
Total financial liabilities at fair value	(1,925.4)	(1,224.0)	(701.4)	(1,113.5)	(575.4)	(538.1)
Net financial instruments at fair value	28.5	28.5	-	(24.9)	(24.9)	-

26 Fair value of financial instruments (continued)

Derivative financial assets include amounts due from Group undertakings of £1,540.0m (2018: £482.3m). Derivative financial liabilities include amounts due to Group undertakings of £385.2m (2018: £604.6m).

27 Related party transactions

The Company has taken advantage of the exemption within FRS 101 from disclosure of transactions with other wholly-owned Centrica plc Group companies and key management personnel compensation. Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on terms equal to those for other employees of the Group.

Summary of transactions with other related parties

During the year, the Company entered into arm's length transactions with the following related parties:

Nuclear associates
EDF Energy Nuclear Generation Limited
Lake Acquisitions Limited

These transactions and associated balances are as follows:

	2019 Associates £ m	2018 Associates £m
Purchase of power	(454.3)	(476.0)
Amounts owed to related parties	(170.9)	(41.8)
	(625.2)	(517.8)

No provision for bad or doubtful debts owed by related parties was required (2018: £nil).

28 Parent and ultimate parent undertaking

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

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

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

29 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. The Company has no 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.

29 Non-adjusting events after the financial period (continued)

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 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.