Registration number: 05782908

Centrica Hive Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Centrica Hive Limited

Contents

Centrica Hive Limited

Strategic Report for the Year Ended 31 December 2019

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

Principal activity
The principal activities of the Company are the development of a software platform and associated hardware products, together with the sale of Hive Smart thermostats and other connected Hive products and services. This assists our customers in the areas of home energy management, smart monitoring, remote diagnostics and home automation.

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, when relevant;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

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

We delegate authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. The directors consider the Company's activities and make decisions. We review financial and operational performance, key risks, stakeholder-related matters, governance, legal and regulatory compliance, and business strategy, for example, considering the Group's 2019 Strategic Review and any impact on the business operations of the Company. This is done through the consideration and discussion of reports which are sent in advance of each leadership team meeting.

Review of the business
The results of the Company for the year, as set out on page 13, show a loss before income tax for the year of £127,128,000 (2018: £77,468,000 loss). The increase in losses from the previous year is mainly due to exceptional items. Exceptional items of £53,861,000 were incurred in the year, representing the Company's share of Group restructuring costs (2018: £1,848,000).

During the year a significant change in direction was announced with the key features being an exit of all markets outside of the UK and the Republic of Ireland, and a renewed focus on Home Energy Management and Home Monitoring in the UK.

As at 31 December 2019, the Company had net liabilities of £261,658,000 (2018: net liabilities of £156,124,000). Cash balances at 31 December 2019 were £1,000 (2018: £349,000). The increase in net liabilities from the prior year reflects the impact of exceptional restructuring and impairment charges, together with an increase in investment in the business, as described above.

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

Principal risks and uncertainties
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.

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

Impact of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) outbreak and coronavirus disease (COVID-19) pandemic

On 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. Following United Kingdom government measures in response to the pandemic the Centrica plc group ("Group") became subject to a significant change in business environment, as well as implementing a number of significant operational changes in order to be able to continue to serve and support our customers. The Company has been unable to carry out non-essential installation activities at customers' properties for the duration of the lockdown period. This has impacted the Company's ability to carry out its performance obligations under certain of its contracts and has also limited certain sales channels.

The full impact of the pandemic on the Company is uncertain, but the Directors expect to significantly mitigate the financial impacts and 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 measures include the restriction of certain non-essential investment and further expediting and deepening planned efficiency cost savings.

The events described above arose after the Company's balance sheet date, and therefore there is no impact on the results or financial position of the Company as at 31 December 2019. The Company is supported by the Group, which has stated that it intends to support the Company for a period of at least 12 months from the date the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that there are a range of future potential financial impacts upon the Group as a result of the pandemic but, following assurances from the ultimate parent company underpinned by its detailed assessment, have satisfied themselves that the Group will be able to support the Company if required under all reasonably foreseeable circumstances. For more information refer to the Going Concern section of the Directors' Report on page 7.

Key performance indicators ('KPIs')

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.

The Company is focussed on the development of various new products that complement the current home heating platform and virtual home monitoring.

The Company will continue to expand the Hive product range across the strategic pillars of Home Energy Management, Remote Diagnostics, Smart Monitoring and Home Automation, whilst focusing on using its products to support the retention of customers in other Group companies. Expanding our range of sales channels remains important and we have had some success in signing up partnerships in the UK although none of them are material to the current year Income Statement. In Ireland we have early traction with several large retailers and we believe we can apply similar principles of optimisation from the UK to Ireland.

Approved by the Board on 22/09/2020 and signed on its behalf by:

Samantha Hood

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

Company registered in England and Wales, No. 05782908

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

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:

K B Ringrose (resigned 24 October 2019)

R M Callaghan

C Miles (resigned 27 August 2019)

P M Simon (appointed 27 August 2019)

Results and dividends
The results of the Company are set out on page 13. The loss for the financial year ended 31 December 2019 is £106,226,000 (2018: loss £63,300,000).

The Company did not pay an interim dividend during the year (2018: £nil) and the Directors do not recommend the payment of a final dividend (2018: £nil).

The financial position of the Company is presented in the Statement of Financial Position on page 15. Net liabilities at 31 December 2019 were £261,658,000 (2018: £156,124,000).

Financial risk management

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 in terms of price risk, credit risk, liquidity risk and cash flow risk
Risk of financial loss due to exposure to market movements on hardware price risk arises in the normal course of business. Strategies to manage the risk include hedging, long lead time purchases, regular supplier evaluations and contract renegotiations, as appropriate.

Exposure to 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.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk is limited predominantly to exposure with other Group companies or arises in the normal course of operations as a result of the potential for a customer to default on their payable balance. 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 a business relationship. An ageing of receivables is monitored and used to manage the exposure to credit risk.

Cash forecasts identifying the liquidity requirements of the Company are produced and reviewed periodically. Liquidity risk is managed through funding arrangements with Group undertakings.

Exposure in terms of financial assets and reporting risks
The Company has material amounts of internally generated intangible assets capitalised in the prior and current years. The Company makes judgements in considering the cost capitalised and assessing whether those costs remain recoverable based on their continued utilisation to generate economic benefit.

The Company has material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets are recoverable. The key assets that are subjected to impairment tests are internally generated software development costs and goodwill. For details of the amounts of key assets which are subject to impairment tests, see note 13.

Employees
The Company remains committed to employee involvement throughout the business.

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 Company offers Sharesave (HMRC's Save As You Earn Scheme) and the Share Incentive Plan (SIP), with good levels of take-up in these Group schemes 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 will be 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.

Safety is the top priority of the Group. We will continue to build safety capability across the business to keep our employees, customers and others who are affected by our activities safe.

Employee engagement
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 3.

Research and development
As in prior years, research and development ('R&D') mainly comprised two distinct work streams. The first was the further development of the software platform. The second was research into other potential revenue generating activities, both in terms of hardware and software development and in terms of data analytics from data gathered from the software platform.

Where the R&D expenditure meets the criteria for recognition as an intangible asset, the costs have been capitalised. All other expenditure has been expensed in the year, either within salary costs for internal staff, or within R&D expenditure for external costs.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances. The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises. The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 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 and S&P confirmed a BBB (negative) credit rating on 30 July.

Events after the reporting period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. 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.

On 29 January the Company acquired 100% of the ordinary shares of Centrica Hive Srl, a company registered in Italy.

There have been no further non-adjusting significant events affecting the Company after the year end.

Directors' and officers' liability

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

Statement of Directors' Responsibilities

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

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

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

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

Disclosure of information to auditors

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

Auditors

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

Approved by the Board on 22/09/2020 and signed on its behalf by:

Samantha Hood

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

Company registered in England and Wales, No. 05782908
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

Independent Auditors' Report to the Members of Centrica Hive Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Centrica Hive 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 loss 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 27.

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 Auditors' Report to the Members of Centrica Hive 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 Auditors' Report to the Members of Centrica Hive 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.

D. Winstone

Daryl Winstone (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 22/9/20

Centrica Hive Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	4	66,399	63,007
Cost of sales	5	(52,097)	(52,457)
Gross profit		14,302	10,550
Operating costs	5	(87,062)	(84,410)
Exceptional items - restructuring costs	7	(24,003)	(1,848)
Exceptional items - impairment	7	(29,858)	-
Operating loss		(126,621)	(75,708)
Finance income	8	6,164	1,406
Finance costs	8	(6,671)	(3,166)
Net finance cost		(507)	(1,760)
Loss before taxation		(127,128)	(77,468)
Taxation on loss	11	20,902	14,168
Loss for the year		(106,226)	(63,300)

The above results were derived from continuing operations.

Centrica Hive Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Loss for the year		(106,226)	(63,300)
Items that will be or have been reclassified to the Income Statement			
Gain/(loss) on cash flow hedges (net)		223	-
Other comprehensive income		223	-
Total comprehensive expense for the year		(106,003)	(63,300)

The notes on pages 18 to 43 form an integral part of these financial statements.

Centrica Hive Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Property, plant and equipment	12	5,588	6,495
Intangible assets	13	78,955	95,235
Deferred tax assets	11	516	15
Investments	14	20	20
		85,079	101,765
Current assets			
Trade and other receivables	16	34,361	45,357
Inventories	17	38,619	21,528
Current tax assets	11	-	52
Cash and cash equivalents		1	349
		72,981	67,286
Total assets		158,060	169,051
Current liabilities			
Trade and other payables	18	(417,695)	(324,398)
Derivative financial instruments		(4)	-
Current tax liabilities	11	(97)	-
Provisions for other liabilities and charges	19	(1,638)	(318)
		(419,434)	(324,716)
Net current liabilities		(346,453)	(257,430)
Total assets less current liabilities		(261,374)	(155,665)
Non-current liabilities			
Provisions for other liabilities and charges	19	(284)	(459)
		(284)	(459)
Net liabilities		(261,658)	(156,124)
Equity			
Share capital	21	2,030	2,030
Share premium		47,383	47,383
Retained earnings		(313,322)	(207,096)
Cash flow hedging reserve		(14)	-
Share-based payments reserve		2,265	1,559
Total equity		(261,658)	(156,124)

The notes on pages 18 to 43 form an integral part of these financial statements.

Centrica Hive Limited

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

The financial statement on pages 13 to 43 were approved and authorised for issue by the Board of Directors on 22/09/2020 and signed on its behalf by:

P. Simon

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P M Simon
Director

Company number 05782908

Centrica Hive Limited

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

	Share capital £ 000	Share premium £ 000	Cash flow hedge reserve £ 000	Share-based payments reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	2,030	47,383	-	1,559	(207,096)	(156,124)
Loss for the year	-	-	-	-	(106,226)	(106,226)
Other comprehensive income	-	-	223	-	-	223
Total comprehensive income	-	-	223	-	(106,226)	(106,003)
Transfers to assets and liabilities from cash flow hedge reserve	-	-	(237)	-	-	(237)
Exercise of awards	-	-	-	(255)	-	(255)
Value of shares provided	-	-	-	961	-	961
At 31 December 2019	2,030	47,383	(14)	2,265	(313,322)	(261,658)

	Share capital £ 000	Share premium £ 000	Share-based payments reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	2,030	47,383	601	(143,796)	(93,782)
Loss for the year	-	-	-	(63,300)	(63,300)
Total comprehensive income	-	-	-	(63,300)	(63,300)
Value of shares provided	-	-	958	-	958
At 31 December 2018	2,030	47,383	1,559	(207,096)	(156,124)

The notes on pages 18 to 43 form an integral part of these financial statements.

1 General information

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

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

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 4.

2 Accounting policies

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

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

- IFRS 16: 'Leases'

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.

The Company at 31 December 2018 had total operating lease commitments of £8,746,000. A right of use asset and a lease liability of £6,760,000 was recognised at 1 January 2019 under the modified transition approach under IRFS 16 whereby the right of use asset was set at the same value of the lease liability. On 1 January 2019, the leases were transferred to a fellow group company, GB Gas Holdings Ltd, at book value. At 31 December 2019 the Company has no lease obligations.

2 Accounting policies (continued)

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.

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 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 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 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. 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)

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.

Going concern
The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Directors are aware that while there are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, they have satisfied themselves that, following assurances from the ultimate parent company underpinned by its detailed assessment, the Group will be able to support the Company if required under all reasonably foreseeable circumstances. The key financial impacts to the Group are expected to be increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customer's homes and premises.

The Group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 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 and S&P confirmed a BBB (negative) credit rating on 30 July.

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

2 Accounting policies (continued)

Revenue recognition

The Company adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, no adjustments to amounts previously recognised in the financial statements have been required and consequently, no restatement of comparatives is required.

The Company earns revenue from contracts with customers in relation to both one-off product sales and recurring subscription revenue from the provision of services. Contracts for one-off sales typically include three performance obligations, being the supply, delivery and installation of hardware. Revenue is recognised once these performance obligations have been fulfilled and control has passed to the customer, this takes place at a point in time for each obligation. The Company offers a right of return for hardware purchased under some contracts; a liability is recognised for the expected value of hardware to be returned, with a corresponding asset recognising the return of inventory.

Contracts including subscription services may be contracted separately, or in combination with the one-off product sale identified above. Subscription services constitute a separate performance obligation which is satisfied overtime and revenue is recognised as the customer benefits from the service provided.

Revenue is shown net of sales/value added tax, returns, rebates and discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Revenue is recognised on an accruals basis. Amounts paid in advance are treated as contract liabilities, with any amount in arrears recognised as contract assets.

Finance income

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

Employee share schemes

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

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

The Company share of the Group schemes is accounted for in equity (see note 22).

2 Accounting policies (continued)

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.

Further information on Exceptional items can be found in note 7 on page 30, as well as note 7 of the Group financial statements.

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.

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

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

Taxation

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

2 Accounting policies (continued)

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.

Business combinations, goodwill and 'internal re-organisations'

The acquisition of assets that constitute a business is accounted for using the acquisition method (at the point the Company gains control over a business as defined by IFRS 3 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date. Goodwill arising on a business combination represents the excess of the consideration transferred and the acquisition date fair value of any previously held interest in the acquiree over the Company's interest in the fair value of the identifiable net assets acquired.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Certain subsequent changes to the amount within 12 months are treated as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs of disposal.

Goodwill is not subject to amortisation after the transition to FRS 101 but is tested for impairment.

On disposal of a business, any amount of goodwill attributed to that business is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets in a business combination is the fair value at the date of acquisition. Intangible assets include patents, application software and development costs, the accounting policies for which are dealt with separately below.

2 Accounting policies (continued)

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

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 cash generating unit ('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.

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
Acquired software development costs	Straight line, up to 6 years
Internally generated software development costs	Straight line, up to 5 years
Trademarks, patents and licences	Straight line, up to 5 years

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.

PP&E is depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

2 Accounting policies (continued)

Depreciation of PPE
The depreciation periods for the principal categories of assets are as follows:

Asset class	Depreciation method and rate
Furniture, fittings and equipment	Straight line, over 3 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 are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items. Cost is calculated using the weighted average method.

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.

Pensions and other post-employment benefits
The Company's employees participate in a number of the Group's defined benefit pension schemes. As the Company's share of the Group's defined benefit pension scheme surplus or deficit cannot be accurately calculated, the Company's contributions to the Group's defined benefit pension schemes are accounted for as a defined contribution scheme in the Company's financial statements. The Company's contributions to the Group's defined benefit pension schemes are recognised in the Company's Income Statement as they fall due.

The Company's share of the Group's 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.

2 Accounting policies (continued)

The recoverable amount of an asset or cash-generating unit ('CGU') is the greater of its value in use ('VIU') 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 derecognised when the obligation under the liability is discharged, cancelled or expires.

- Trade and other receivables

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

Trade receivables are initially recognised at fair value, which is usually 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.

- Trade and other payables

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

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

- Share capital

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

2 Accounting policies (continued)

- Cash and cash equivalents

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

- Loans and other borrowings

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

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.

Capitalisation of intangible assets

The Company has material amounts of internally generated intangible assets capitalised in the prior and current years. The Company makes judgements in considering the cost capitalised and assessing whether those costs remain recoverable based on their continued utilisation to generate economic benefit.

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)

Impairment of intangible assets

The Company has material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets are recoverable. The key assets that are subjected to impairment tests are internally generated software development costs and goodwill.

As a result of the decision to no longer invest in geographies outside of the UK and Ireland and to focus propositions on Heating and Home Monitoring, asset carrying values, contractual implications and organisation structure were reviewed. All intangible assets (£12,366,000) related to North America and rest of the world were impaired, together with any assets related to Connected Care development in the UK.

Goodwill acquired through business combinations, and indefinite-lived intangible assets, have been allocated for impairment testing purposes to individual cash generating units representing the lowest level at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes. The recoverable amounts of CGU's have been calculated with reference to their value in use. The VIU calculations use pre-tax cash flow projections based on Board-approved business plans for five years. The business plans are based on past experience and adjusted to reflect market trends, economic conditions, key risk, and the implementation of strategic objectives, as appropriate.

Cash flows beyond the planned period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate. Long-term growth rates and pre-tax discount rates used in the VIU calculations were 2.0% (2018: 2.1%) and 10.8 (2018: 11.1%) respectively.

These VIU calculations have resulted in an impairment of goodwill of £13,065,000 and intangible assets of £3,778,000.

For details of the amounts of key assets which are subject to impairment tests, see note 13.

4 Revenue

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

	2019 £ 000	2018 £ 000
Sale of goods	60,541	55,086
Subscription income	5,858	7,921
	66,399	63,007

4 Revenue (continued)

The analysis of the Company revenue for the year from continuing operations by geography (based on location of customer) is as follows:

	2019 £ 000	2018 £ 000
United Kingdom	67,478	61,902
Rest of the world	(1,079)	1,105
	66,399	63,007

Rest of the world revenue in 2019 includes a credit for inventory returned from North America.

5 Analysis of costs by nature

	2019 Cost of sales £ 000	 Operating costs £ 000	 Total costs £ 000	2018 Cost of sales £ 000	 Operating costs £ 000	 Total costs £ 000
Foreign exchange losses	-	(40)	(40)	-	(903)	(903)
Employee costs	-	(29,784)	(29,784)	-	(28,362)	(28,362)
Depreciation, amortisation, impairment and write-downs	-	(18,927)	(18,927)	-	(16,550)	(16,550)
Hardware and installation costs	(52,097)	-	(52,097)	(52,457)	-	(52,457)
Impairment of trade receivables	-	(654)	(654)	-	(1,999)	(1,999)
Contractor and other staff related costs	-	(19,799)	(19,799)	-	(26,913)	(26,913)
Other operating costs	-	(17,858)	(17,858)	-	(9,683)	(9,683)
Total costs by nature	(52,097)	(87,062)	(139,159)	(52,457)	(84,410)	(136,867)

Research and development costs expensed in the period totalled £471,000 (2018: £2,871,000). These are included within employee costs and other operating costs.

6 Employees' costs

The disclosures in this note reflect the costs and number of all Centrica plc Group employees that work in the Centrica Hive Limited business regardless of whether they have a contract of employment with Centrica Hive Limited or another Group company. The Directors believe that the disclosures given on this basis are the fullest representation of the cost borne by the Company and of the number of employees working in the business.

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

	2019 £ 000	2018 £ 000
Wages and salaries	(23,610)	(23,788)
Social security costs	(2,853)	(2,460)
Pension and other post-employment benefits	(2,360)	(1,896)
Share-based payment expenses	(961)	(218)
	(29,784)	(28,362)

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Administration and support	119	106
Product development and sales	210	233
	329	339

7 Exceptional items

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

	2019 £ 000	2018 £ 000
Exceptional items - restructuring costs	(24,003)	(1,848)
Exceptional items - impairment	(29,858)	-
	(53,861)	(1,848)

Exceptional items include £21,807,000 (2018: £nil) of costs as a result of the decision to no longer invest in geographies outside of the UK and Ireland and to focus propositions on Heating and Home Monitoring. This includes redundancy, inventory write-off, impairment to intangible and tangible assets and costs to host, maintain and service the current North American and European customer book for the remainder of the warranty period.

£16,843,000 (2018: £nil) relates to impairment of goodwill and intangible assets as a result of impairment reviews performed following the strategic shift in the business.

The remainder of restructuring costs represent a share of costs incurred in the transformation of the Group Shared Services function. This includes redundancy payments, consultancy and costs associated with implementing global information technology systems.

8 Net finance income/cost

Finance income

	2019 £ 000	2018 £ 000
Interest income from amounts owed by Group undertakings	6,163	1,406
Net foreign exchange gains on financing transactions	1	-
Total finance income	6,164	1,406

Finance cost

	2019 £ 000	2018 £ 000
Interest on amounts owed to Group undertakings	(3,546)	(3,110)
Net foreign exchange losses on financing transactions	(3,125)	(56)
Total finance costs	(6,671)	(3,166)
Net finance income/(cost)	(507)	(1,760)

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 Auditors' remuneration

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

	2019 £ 000	2018 £ 000
Audit fees	(40)	(40)

Auditors' 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 accounts of its ultimate parent, Centrica plc.

11 Income tax

Tax credited/(charged) in the Income Statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax at 19% (2018: 19%)	20,452	14,142
UK corporation tax adjustment to prior periods	(51)	11
	20,401	14,153
Deferred taxation		
Origination and reversal of temporary differences	577	59
Changes in tax rates	(61)	(6)
Adjustment in respect of prior period	(15)	(38)
Total deferred taxation	501	15
Taxation on loss	20,902	14,168

The main rate of corporation tax for the year to 31 December 2019 was 19% (2018: 19%). The corporation tax rate was due to reduce to 17% with effect from 1 April 2020. However, at the Budget on 11 March 2020 it was announced that the rate of corporation tax will remain at 19%. As substantive enactment of the 19% corporation tax rate is after the balance sheet date, the deferred tax balances provided in these financial statements reflect the enacted rate of 17%. For future reporting dates after the enactment of the Finance Bill 2020, the deferred tax balances provided are expected to increase by £61,000, and will be reflected in the financial statements for the year ended 31 December 2020.

11 Income tax (continued)

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

	2019 £ 000	2018 £ 000
Loss before tax	(127,128)	(77,468)
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	24,154	14,719
Increase/(decrease) in current tax from adjustment for prior periods	(66)	(27)
Decrease/(increase) from effect of revenues exempt from taxation	57	109
Increase/(decrease) from effect of expenses not deductible in determining taxable profit/(tax loss)	(2,482)	(9)
Decrease/(increase) from tax losses for which no deferred tax asset was recognised	(622)	(429)
Increase/(decrease) from effect of exercise employee share options	(78)	(170)
Increase/(decrease) arising from group relief tax reconciliation	(3,571)	114
Increase/(decrease) from transfer pricing adjustments	3,571	(114)
Deferred tax expense/(credit) relating to changes in tax rates or laws	(61)	(6)
Other tax effects for reconciliation between accounting profit and tax expense/(income)	-	(19)
Total tax credit	20,902	14,168

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:

	Financial instruments £000	Fixed assets £000	Temporary difference trading £000	Other items £000	Total £ 000
1 January 2019	7	137	75	(204)	15
Charged/(credited) to the Income Statement	(1)	317	16	184	516
Prior period adjustments	-	-	-	(15)	(15)
31 December 2019	6	454	91	(35)	516

	Financial instruments £000	Fixed assets £000	Temporary difference trading £000	Other items £000	Total £ 000
1 January 2018	8	12	1,006	(1,026)	-
Charged/(credited) to the Income Statement	(1)	91	10	(47)	53
Prior period adjustments	-	34	(941)	869	(38)
31 December 2018	7	137	75	(204)	15

There is £44,264,000 of trading losses (2018: £40,987,000) and £nil of other temporary differences (2018: £(3,000)) for which no deferred tax asset is recognised in the Statement of Financial Position.

12 Property, plant and equipment

	Furniture, fittings and equipment £ 000
Cost	
At 1 January 2019	10,665
Additions	2,740
At 31 December 2019	13,405
Accumulated depreciation	
At 1 January 2019	(4,170)
Charge for the year	(2,999)
Impairment	(648)
At 31 December 2019	(7,817)
Net book value	
At 31 December 2019	5,588
At 31 December 2018	6,495

13 Intangible assets

	Goodwill £ 000	Trademarks, patents and licenses £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation				
At 1 January 2019	13,065	250	108,430	121,745
Additions and capitalised borrowing costs	-	-	28,858	28,858
At 31 December 2019	13,065	250	137,288	150,603
Amortisation				
At 1 January 2019	-	(250)	(26,260)	(26,510)
Amortisation [(i)]	-	-	(15,929)	(15,929)
Impairment [(ii)]	(13,065)	-	(16,144)	(29,209)
At 31 December 2019	(13,065)	(250)	(58,333)	(71,648)
Carrying amount				
At 31 December 2019	-	-	78,955	78,955
At 31 December 2018	13,065	-	82,170	95,235

[(i)] Amortisation charges are recognised within operating costs in the Income Statement.
[(ii)] Impairment charges are recognised within exceptional items in the Income Statement.

The maximum remaining useful economic life of the individually material assets within Internally generated software development costs is five years. This represents the Hive software platform and its subsequent enhancements, which has a carrying value of £40,610,000 (2018: £23,131,000).

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

Goodwill and indefinite life intangible assets considered significant in comparison to the Company's total carrying amount of such assets have been allocated to cash generating units as follows:

	Connected Home £000
Carrying value at 31 December 2018	13,065
Impairment	(13,065)
Carrying value at 31 December 2019	-

13 Intangible assets (continued)

The recoverable amounts of cash generating units have been calculated with reference to their value in use.

The VIU calculations use pre-tax cash flow projections based on Board-approved business plans for five years. The business plans are based on past experience and adjusted to reflect market trends, economic conditions, key risks, and the implementation of strategic objectives, as appropriate.

Cash flows beyond the planned period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate. Long-term growth rates and pre-tax discount rates used in the VIU calculations were 2.0% (2018: 2.1%) and 10.8% (2018: 11.1%) respectively. The inflation rate used in the VIU calculation was 1.9% (2018: 2.1%).

14 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2019	20
At 31 December 2019	20
Net book value	
At 31 December 2019	20

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**
Alertme.com GmbH	Non-trading	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany Germany	Ordinary shares	100%	100%
Alertme.com Inc.	Non-trading	1521 Concord Pike #303, Wilmington, DE 19803, United States United States	Ordinary shares	100%	100%
Flowgem Limited (i)	Dormant	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom United Kingdom	Ordinary shares	0%	100%

14 Investments (continued)

(i) The Company previously held 100% of the ordinary shares of Flowgem Limited. Flowgem Limited went into liquidation on 27 September 2018 and was dissolved on 27 June 2019.

On 29 January 2020 the Company acquired 100% of the ordinary shares of Centrica Hive Srl, a company registered in Italy.

15 Acquisitions - business combinations

Business combinations completed in 2016

On 25 August 2016, the Company acquired 100% of the issued share capital of Flowgem Limited ('Flowgem') for net cash consideration of £11,730,000 and contingent consideration with a fair value of £4,581,000 (a total net consideration of £16,311,000). Subsequent to acquisition, there was a delay in the expected roll-out of the leak propositions due to additional development required to the platform and infrastructure post-acquisition to bring the product to market. As a result, management updated the fair value calculations relating to the contingent consideration giving rise to a credit of £3,321,000 in the 2016 Income Statement, a credit of £800,000 in the 2018 Income Statement and subsequently a credit of £300,000 in the 2019 Income Statement. This was disclosed as part of Other costs within Other operating costs. The contingent consideration included in note 19 of £160,000 (2018: £460,000) has been reviewed to consider whether it is still appropriate and it has been concluded that it can be reduced to reflect the current estimate of the liability.

There have been no significant updates in 2019 to the fair values of the identifiable assets and liabilities recognised for this acquisition. Flowgem Limited went into liquidation on 27 September 2018 and was dissolved on 27 June 2019.

16 Trade and other receivables

	2019 Current £ 000	2018 Current £ 000
Trade receivables	13,778	16,134
Amounts owed by Group undertakings	13,121	13,594
Accrued income	3,904	7,913
Prepayments	2,307	6,485
Other receivables	1,249	1,149
Other financial assets	2	82
	34,361	45,357

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

17 Inventories

	2019 £ 000	2018 £ 000
Finished goods and goods for resale	38,619	21,528

The Company consumed £43,534,000 of inventories (2018: £43,840,000) during the year. Write-downs amounting to £5,763,000 (2018: £492,000) were charged to the Income Statement in the year and are disclosed as Exceptional items - restructuring costs (2018: Other costs within Other operating costs).

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

18 Trade and other payables

	2019 Current £ 000	2018 Current £ 000
Trade payables	(15,497)	(7,986)
Accrued expenses	(18,082)	(19,947)
Amounts owed to Group undertakings	(380,091)	(294,243)
Social security and other taxes	(2,090)	(922)
Contract liabilities	(1,935)	(1,300)
	(417,695)	(324,398)

The amounts owed to Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. The net amount payable to the parent company includes amounts receivable of £175,932,000 (2018: £87,279,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.20% and 4.90% per annum during 2019 (2018: 3.72% and 4.13%). The other amounts payable to associated group companies are interest-free. All amounts payable to the parent company and associated group companies are unsecured and repayable on demand.

19 Provisions for other liabilities and charges

	Restructuring £ 000	Employee benefits (i) £ 000	Other provisions (ii) £ 000	Total £ 000
At 1 January 2019	-	(317)	(460)	(777)
Charged to the Income Statement	(1,321)	(185)	(1,040)	(2,546)
Unused provision reversed to the Income Statement	-	-	300	300
Provisions used	1,101	-	-	1,101
At 31 December 2019	(220)	(502)	(1,200)	(1,922)
Non-current liabilities	-	(284)	-	(284)
Current liabilities	(220)	(218)	(1,200)	(1,638)

(i) Employee benefits consist of national insurance on the Company's share of Group share based payments.

(ii) Other provisions of £160,000 are in respect of deferred consideration (2018: £460,000); £160,000 of which is due within one year (2018: £100,000). More information on this is disclosed in note 15. Other provisions of £1,040,000 (2018: £nil) are in respect of costs to host, maintain and service the current North American and European customer book for the remainder of the warranty period. More information on this is disclosed in note 7.

20 Post-retirement benefits

(a) Defined benefit pension schemes

The Company's employees participate in a number of Group defined benefit pension schemes. Information on these schemes is provided in note 22 to the Group financial statements. The Company is unable to accurately identify its share of the overall pension scheme surplus or deficit and therefore accounts for the schemes as if they were a defined contribution scheme. Contributions payable of £164,000 (2018: £214,000) were recognised as an expense payable in the Income Statement.

(b) Defined contribution pension scheme

The cost charged to the Income Statement of £2,196,000 (2018: £1,682,000) represents the Company's share of contributions due to the scheme by the Group at rates specified in the rules of the scheme.

21 Capital and reserves

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.060 each	33,837	2,030	33,837	2,030

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

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

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

22 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in several employee share schemes which gave rise to a charge of £961,000 (2018: £218,000) which is shown under the financial line item 'operating costs'. The schemes that Centrica Hive employees participated in are described below.

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.

Share Incentive Plan (SIP)
SIP is available to all employees who may purchase shares through monthly salary deductions - these are termed 'partnership shares'. The Group then awards one matching share for every two partnership shares, up to a maximum of 22 matching shares per employee per month. These shares have a 3 year vesting period and the shares are all held in trust. Partnership shares can be withdrawn at any time; however matching shares are forfeited if the related partnership shares are withdrawn within the vesting period.

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

23 Operating leases

Leases as lessee

At 31 December the Company had total future minimum lease payments under non-cancellable operating leases for properties with the following maturities:

	2019 £ 000	2018 £ 000
Within one year	-	4,626
In two to five years	-	4,020
In over five years	-	100
	-	8,746

The amount of non-cancellable operating lease payments recognised as an expense during the year as Other operating costs was £nil (2018: £3,737,000). Lease arrangements comprise property rentals. These were all transferred to GB Gas Holdings Limited.

24 Commitments and contingencies

	2019 £ 000	2018 £ 000
Other commitments	15,889	20,586
	15,889	20,586

Included within other commitments are stock purchase commitments of £15,875,000 (2018: £17,487,000), advertising retainers for marketing purposes of £nil (2018: £301,000) and other commitments of £14,000 (2018: £2,798,000). Stock purchase commitments will unwind over periods ranging from 2 to 9 months.

25 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.

26 Parent and ultimate parent undertaking

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

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

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

27 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 impact of COVID-19 has reduced the Company's ability to sell its products, although trading has been stronger since the lockdown restrictions were eased. The Company's overall performance is in line with expectations. 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.

On 29 January 2020 the Company acquired 100% of the ordinary shares of Centrica Hive Srl, a company registered in Italy.

There have been no further non-adjusting significant events affecting the Company after the year end.