

Registration number: 06796004

British Gas Finance Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



British Gas Finance Limited

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British Gas Finance Limited

Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for British Gas Finance Limited (the 'Company') for the year ended 31 December 2020.

Principal activity

The principal activities of the Company are to purchase, own and maintain assets (predominantly cars and vans) and lease these assets to the Centrica plc group (the 'Group').

Section 172(1) Statement

In promoting the success of the Company, the Directors must also consider the interests of stakeholders and the other matters required by section 172(1) (a) to (f) of the Companies Act. This Section 172 Statement describes how the Directors have taken into account wider stakeholders in their decision making. Whilst the Company is an independent subsidiary of Centrica plc, the Company activity supports the wider strategy of British Gas and the Centrica Group. Where appropriate, for example in matters of long-term strategy, decision making is aligned with that of the parent company Board, ensuring that stakeholders of the Company have been rigorously considered.

General confirmation of Directors' duties

Directors are fully aware of and understand their statutory duties under the Act. The Board has a clear framework for determining the matters within its remit. Day to day authority is delegated to executives and the Directors engage with management in setting, approving and overseeing execution of the business strategy and related policies. The executives consider the Company's activities, such as review financial and operational performance, business strategy, key risks, stakeholder-related matters, governance, and legal and regulatory compliance and make decisions. Section 172(1) of the Act provides that each Director must ensure that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to section 172(1) (a) to (f) as described below.

(a) The likely consequences of any decision in the long term

The Directors remain conscious that decisions made 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. For instance, in light of the uncertainty arising from the COVID pandemic the Directors sought additional assurance prior to making decisions with regards to payment of dividends. Dividend decisions were made taking into full consideration the need to ensure the long-term sustainability of the business for its stakeholders.

(b) The interests of the company's employees

Although the Directors recognise that employees within the Group are fundamental to the future growth and success of Centrica, the company has no direct employees therefore the consideration of the interests of the Company's employees has not applied to the decisions made by the Directors.

(c) The need to foster the company's business relationships with suppliers, customers and others

The Directors recognise the benefits of engaging with a broad range of stakeholders and developing and delivering our strategy depends on building and maintaining constructive relationships across them all.

As the principal activity of the Company is to provide services to other Centrica Group entities, its stakeholders during the period include other Centrica Group companies and as such the breadth of stakeholder considerations that would often apply in operating or commercial trading companies have generally not applied to the decisions made by the Directors.

British Gas Finance Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

(d) The impact of the company's operations on the community and the environment

The Directors appreciate that collaboration with charities and community groups helps to create stronger communities and provide insights that enable the Board to understand the Group's impact on the community and environment, and the consequences of its decisions in the long term. Further information about how the Centrica Group engages with communities and NGOs can be found on page 24 of the Group's Annual Report and Accounts 2020 and further information about Centrica's climate change ambitions, including targets to electrify the British Gas fleet, can be found on page 30 of the Group's Annual Report and Accounts 2020.

(e) The desirability of the company maintaining a reputation for high standards of business conduct

The Board adheres to Centrica Group's "Our Code" code of conduct which all Centrica Group employees are subject to setting out the high standards and behaviours we expect from those that work for us or with us.

(f) The need to act fairly as between members of the company

After weighing up all relevant factors, the Directors consider which course of action best promotes the long-term success of the Company, taking into consideration the impact on stakeholders. In doing so, the Directors act fairly as between the Company's members. However, the Directors are not required to balance the Company's interests with those of other stakeholders, and this can sometimes mean that certain stakeholder interests may not be fully aligned.

Culture

The Company's culture is set by the Group and embedded in all we do. Further information on our culture can be found on page 25 of the Group's Annual Report and Accounts 2020.

Review of the business

The results of the Company are set out on page 11. The profit for the financial year ended 31 December 2020 is £2,268,000 (2019: profit £5,330,000). The financial position of the Company is presented on page 14. At 31 December 2020 net assets are £61,249,000,000 (2019: £58,981,000) and retained earnings are £21,249,000 (2019: £18,981,000).

Stakeholder Engagement

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard to the matters set out in Section 172 (1) (a) to (f) of the Companies Act. Further information on stakeholder engagement can be found on pages 22 to 24 of the Group's Annual Report and Accounts 2020. Engaging with stakeholders delivers better outcomes for society, and for the business. It is fundamental to the Company's 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 34-42 of the Group's Annual Report and Accounts 2020, which does not form part of this report.

Exit from the European Union

The UK and the European Union agreed a new trade deal which came into effect on the 31 December 2020 at 23:00 GMT. 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. Extricate 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.

British Gas Finance Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

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 12-13 of the Group's Annual Report and Accounts 2020, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 4.

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 restructure is on track with a reduction in Group direct headcount by over 3,000 in 2020 and another 1,000 role reductions expected to take place in 2021. The restructure will benefit the longer term value of the business, future operating profits and maintenance of a strong capital position of the Group. The Company would not expect to be materially impacted by the restructure.

Approved by the Board on^{20/08/2021} and signed on its behalf by:



Lindsay Hegarty

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

Company registered in England and Wales, No. 06796004

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

British Gas Finance Limited

Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

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:

P M Simon

S E Mussenden (resigned 30 June 2021)

The following director was appointed after the year end:

S D Phillips - Director (appointed 30 June 2021)

Results and dividends

The results of the Company are set out on page 11. The profit for the financial year ended 31 December 2020 is £2,268,000 (2019: profit £5,330,000).

The Company did not pay an interim dividend during the year (2019: £nil) and the Directors do not recommend the payment of a final dividend (2019: £nil).

Financial risk management policy

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

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 exposures with other Group companies or exposure to credit risk which arises in the normal course of operations as a result of the potential for a customer defaulting on its 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 frequently and reviewed regularly. Liquidity risk is managed through funding arrangements with Group undertakings.

Future developments

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

British Gas Finance Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Going concern

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will 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 for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Group expects ongoing impacts from COVID-19 in 2021 and 2022, including lower energy demand and incremental bad debt costs as the economy recovers from the pandemic. The Group's forecasts show that the Group will maintain sufficient headroom, underpinned by unrestricted cash and cash equivalents, net of bank overdrafts, of c.£3.2bn as at 30 June 2021, and c.£3.2bn of undrawn committed facilities, which remain committed until at least 2024. The Group going concern assessment as at 30 June 2021 included various sensitivities including the impacts of a 30% decline in commodity prices, credit rating downgrade and external risks of COVID-19 including lower demand for products, lower energy consumption and higher bad debt costs, as well as mitigating actions to maintain liquidity. After Centrica's interim results announcement in July 2021 neither credit rating agency changed their rating with S&P affirming a BBB (negative) credit rating and Moody's also leaving the Baa2 (negative) rating unchanged.

On the basis of the enquiries made, and the fact that Centrica plc, the ultimate parent company, has confirmed it will continue to support the Company, the Directors have concluded that the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

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.

British Gas Finance Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

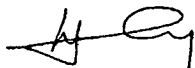
Disclosure of information to auditors

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 20/08/2021..... and signed on its behalf by:



Lindsay Hegarty

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

Company registered in England and Wales, No. 06796004

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire

SL4 5GD

United Kingdom

British Gas Finance Limited

Independent Auditors' Report to the Members of British Gas Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of British Gas Finance Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 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 17.

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

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

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

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

Other information

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

British Gas Finance Limited

Independent Auditors' Report to the Members of British Gas Finance Limited (continued)

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

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the 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.

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

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

We considered the nature of the company's industry and its control environment, and reviewed the documentation of the policies and procedures relating to fraud and compliance with laws and regulations that has been established by the Company's ultimate parent. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

British Gas Finance Limited

Independent Auditors' Report to the Members of British Gas Finance Limited (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

British Gas Finance Limited

**Independent Auditors' Report to the Members of British Gas Finance Limited
(continued)**

D. Winstone

Daryl Winstone (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London

United Kingdom

Date: 20/8/21

British Gas Finance Limited

Income Statement for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Revenue	4	1,936	2,638
Cost of sales	5	<u>(2,853)</u>	<u>(2,191)</u>
Gross (loss)/profit		(917)	447
Operating costs	5	<u>(235)</u>	<u>(512)</u>
Operating loss		<u>(1,152)</u>	<u>(65)</u>
Finance income	8	5,958	6,496
Finance costs	8	<u>(3,310)</u>	<u>(100)</u>
Net finance income		<u>2,648</u>	<u>6,396</u>
Profit before taxation		1,496	6,331
Taxation on loss/(profit)	10	<u>772</u>	<u>(1,001)</u>
Profit for the year from continuing operations		<u>2,268</u>	<u>5,330</u>

The above results were derived from continuing operations.

British Gas Finance Limited

Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020 £ 000	2019 £ 000
Profit for the year	<u>2,268</u>	<u>5,330</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>2,268</u>	<u>5,330</u>

British Gas Finance Limited

Statement of Financial Position as at 31 December 2020

	Note	2020 £ 000	2019 £ 000
Non-current assets			
Property, plant and equipment	11	<u>100</u>	<u>1,155</u>
		100	1,155
Current assets			
Trade and other receivables	12	<u>134,203</u>	<u>134,425</u>
Total assets		<u>134,303</u>	<u>135,580</u>
Current liabilities			
Trade and other payables	14	(16,138)	(13,852)
Borrowings	13	<u>(16,633)</u>	<u>(19,197)</u>
		(32,771)	(33,049)
Net current assets		<u>101,432</u>	<u>101,376</u>
Total assets less current liabilities		<u>101,532</u>	<u>102,531</u>
Non-current liabilities			
Deferred tax liabilities	10	(966)	(1,735)
Trade and other payables	14	(20,000)	(20,000)
Borrowings	13	<u>(19,317)</u>	<u>(21,815)</u>
		(40,283)	(43,550)
Total liabilities		<u>(73,054)</u>	<u>(76,599)</u>
Net assets		<u>61,249</u>	<u>58,981</u>
Equity			
Share capital	15	-	-
Share premium		40,000	40,000
Retained earnings		<u>21,249</u>	<u>18,981</u>
Total equity		<u>61,249</u>	<u>58,981</u>

The financial statements on pages 11 to 27 were approved and authorised for issue by the Board of Directors on 20/08/2021..... and signed on its behalf by:



S D Phillips
Director

Company number 06796004

British Gas Finance Limited

Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2020	-	40,000	18,981	58,981
Profit for the year	-	-	2,268	2,268
Total comprehensive income	-	-	2,268	2,268
At 31 December 2020	-	40,000	21,249	61,249

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	-	40,000	13,651	53,651
Profit for the year	-	-	5,330	5,330
Total comprehensive income	-	-	5,330	5,330
At 31 December 2019	-	40,000	18,981	58,981

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

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

The address of its registered office and principal place of business is:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

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

2 Accounting policies

Basis of preparation

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

The Company financial statements are presented in pounds sterling which is the functional currency of the Company.

Changes in accounting policy

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

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

None of these changes or amendments had any material impact on the Company's financial statements.

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;

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

- 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

Measurement convention

The financial statements have been prepared on the historical cost basis.

Going concern

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will 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 for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Group expects ongoing impacts from COVID-19 in 2021 and 2022, including lower energy demand and incremental bad debt costs as the economy recovers from the pandemic. The Group's forecasts show that the Group will maintain sufficient headroom, underpinned by unrestricted cash and cash equivalents, net of bank overdrafts, of c.£3.2bn as at 30 June 2021, and c.£3.2bn of undrawn committed facilities, which remain committed until at least 2024. The Group going concern assessment as at 30 June 2021 included various sensitivities including the impacts of a 30% decline in commodity prices, credit rating downgrade and external risks of COVID-19 including lower demand for products, lower energy consumption and higher bad debt costs, as well as mitigating actions to maintain liquidity. After Centrica's interim results announcement in July 2021 neither credit rating agency changed their rating with S&P affirming a BBB (negative) credit rating and Moody's also leaving the Baa2 (negative) rating unchanged.

On the basis of the enquiries made, and the fact that Centrica plc, the ultimate parent company, has confirmed it will continue to support the Company, the Directors have concluded that the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

Lease income

Revenue includes a 5% management fee on the rental contracts which is recognised on an accruals basis on a straight-line over the term of the lease.

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.

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 right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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

The 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.

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.

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.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (for which the 'unit of production method' is used), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation of PP&E

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

Asset class	Depreciation method and rate
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.

Impairment

The carrying amounts of the Company's non-financial assets, other than 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.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

- 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.

- 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.

- 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, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and the associated assumptions are based on historical experience or other factors that are considered to be relevant. Actual results may differ from these estimates.

In the Directors' opinion there are no critical judgements or key sources of estimation uncertainty.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

4 Revenue

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

	2020 £ 000	2019 £ 000
Lease income from rental contracts	<u>1,936</u>	<u>2,638</u>

All revenue arose from activities in the United Kingdom.

5 Analysis of costs by nature

	Cost of sales £ 000	2020 Operating costs £ 000	Total costs £ 000	Cost of sales £ 000	2019 Operating costs £ 000	Total costs £ 000
Depreciation, amortisation, impairment and write-downs	(35)	-	(35)	(636)	-	(636)
Loss on disposal of fixed assets	-	(88)	(88)	-	(390)	(390)
Other cost of sales	(2,818)	-	(2,818)	(1,555)	-	(1,555)
Other operating costs	-	(147)	(147)	-	(122)	(122)
Total costs by nature	<u>(2,853)</u>	<u>(235)</u>	<u>(3,088)</u>	<u>(2,191)</u>	<u>(512)</u>	<u>(2,703)</u>

6 Employees' costs

The Company had no employees during the year (2019: nil).

7 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.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Net finance income/cost

Finance income

	2020 £ 000	2019 £ 000
Interest income from amounts owed by Group undertakings	5,958	6,496
Total finance income	5,958	6,496

Finance cost

	2020 £ 000	2019 £ 000
Interest expense on lease liabilities	-	(14)
Interest on amounts owed to Group undertakings	(3,310)	(86)
Total finance costs	(3,310)	(100)
Net finance income/(cost)	2,648	6,396

9 Auditors' remuneration

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

	2020 £ 000	2019 £ 000
Audit fees	(10)	(10)

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.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Income tax

Tax credited/(charged) in the Income Statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax at 19% (2019: 19%)	-	(2,279)
UK corporation tax adjustment to prior periods	3	(19)
	<u>3</u>	<u>(2,298)</u>
Deferred taxation		
Origination and reversal of temporary differences	1,021	1,074
Changes in tax rates	(209)	204
Adjustment in respect of prior period	(43)	19
Total deferred taxation	<u>769</u>	<u>1,297</u>
Taxation on loss	<u>772</u>	<u>(1,001)</u>

The main rate of corporation tax for the year to 31 December 2020 was 19% (2019: 19%). The Budget on 3 March 2021 announced that the rate of corporation will increase to 25% with effect from 1 April 2023. The deferred tax balances provided in these financial statements reflect the enacted rate of 19%, when the Finance Bill 2021 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:

	2020 £ 000	2019 £ 000
Profit before tax	<u>1,496</u>	<u>6,331</u>
Tax on profit at standard UK corporation tax rate of 19% (2019: 19%)	(284)	(1,203)
Increase (decrease) in current tax from adjustment for prior periods	(40)	-
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	(44)	(2)
Increase (decrease) arising from group relief tax reconciliation	1,349	(176)
Increase (decrease) from transfer pricing adjustments	-	176
Deferred tax expense (credit) relating to changes in tax rates or laws	<u>(209)</u>	<u>204</u>
Total tax credit/(charge)	<u>772</u>	<u>(1,001)</u>

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Income tax (continued)

	2020	2019
	£ 000	£ 000
Current liabilities		
Group relief creditor	(2,276)	(2,279)
	<u>(2,276)</u>	<u>(2,279)</u>

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
1 January 2020	(1,735)
Charged/(credited) to the Income Statement	812
Prior period adjustments	<u>(43)</u>
31 December 2020	<u>(966)</u>

	Accelerated tax depreciation £000
1 January 2019	(3,032)
Charged/(credited) to the Income Statement	1,278
Prior period adjustments	<u>19</u>
31 December 2019	<u>(1,735)</u>

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Property, plant and equipment

	Motor vehicles £ 000
Cost	
At 1 January 2020	3,164
Additions	26
Disposals and surrenders	(3,011)
At 31 December 2020	<u>179</u>
Accumulated depreciation and impairment	
At 1 January 2020	(2,009)
Charge for the year	(35)
Disposals and surrenders	1,965
At 31 December 2020	<u>(79)</u>
Net book value	
At 31 December 2020	<u>100</u>
At 31 December 2019	<u>1,155</u>

12 Trade and other receivables

	2020		2019	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Amounts owed by Group undertakings	103,348	-	102,053	-
Loan receivables owed by Group undertakings	29,816	-	32,372	-
Other receivables	1,039	-	-	-
	<u>134,203</u>	<u>-</u>	<u>134,425</u>	<u>-</u>

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 £107,832,000 (2019: £141,578,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.42 and 4.73% per annum during 2020 (2019: 4.20 and 4.90%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

The Company has entered into various lease arrangements as a lessor that are considered to be finance leases under IFRS16: 'Leases'. The Group leases vehicles for its engineers and as they transfer substantially all of the risks and rewards of ownership of the assets they are classified as finance leases.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 Loans and borrowings

	31 December 2020 £ 000	31 December 2019 £ 000
Current bank overdrafts, loans and borrowings		
Bank overdrafts	(70)	(58)
Lease liabilities	<u>(16,563)</u>	<u>(19,139)</u>
	<u>(16,633)</u>	<u>(19,197)</u>
 Non-current bank overdrafts, loans and borrowings		
Lease liabilities	<u>(19,317)</u>	<u>(21,815)</u>

14 Trade and other payables

	2020		2019	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Accrued expenses	(409)	-	(388)	-
Amounts owed to Group undertakings	(7,794)	(20,000)	(8,677)	(20,000)
Social security and other taxes	(3,237)	-	(428)	-
Other payables	(4,642)	-	(3,842)	-
Deferred income	<u>(56)</u>	<u>-</u>	<u>(517)</u>	<u>-</u>
	<u>(16,138)</u>	<u>(20,000)</u>	<u>(13,852)</u>	<u>(20,000)</u>

The 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 disclosed above is £20,000,000 (2019: £20,000,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.42 and 4.73% per annum during 2020 (2019: 4.20 and 4.90%). The other net amounts owed by Group undertakings are interest-free.

All amounts owed by Group undertakings are unsecured and repayable on demand except the £20,000,000 (2019: £20,000,000) which is owed to Centrica Plc on 29 April 2022 unless otherwise agreed in writing.

British Gas Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Capital and reserves

Allotted, called up and fully paid shares

	2020		2019	
	No.	£	No.	£
Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

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.

16 Commitments and contingencies

Capital commitments

The total amount contracted for but not provided in the financial statements was £26,300,000 (2019: £13,381,000). This amount relates to capital commitment for vehicle leases which have been purchased but where the lease has not yet commenced.

The amount is due within one year.

17 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.