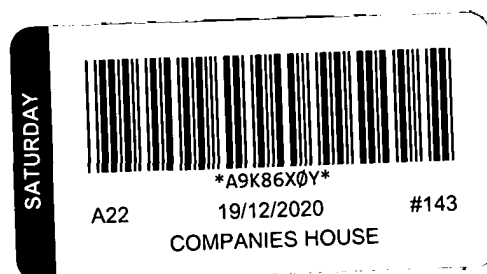


Registration number: 08811254

British Gas Energy Procurement Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



British Gas Energy Procurement Limited

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British Gas Energy Procurement Limited

Strategic Report for the Year Ended 31 December 2019

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

Principal activity

The principal activities of the Company is the procurement and supply of physical gas and power to British Gas Trading Limited ('BGTL').

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.

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

Review of the business

The Company was incorporated on 11 December 2013 and is a wholly owned subsidiary of BGTL.

Since 31 December 2013, the Company has entered into a contract of daily physical supply with BGTL. The pricing of the physical supply contract is based on the realised cost of procuring physical gas and power but the Company is responsible for the within day balancing and any risk of contract non-delivery. For these services the Company receives a fixed fee of £42m per annum. The Company also shares in BGTL's price risk of the energy procurement activities for British Gas residential tariff customers by incurring any gain or loss on the cost of procurement in excess of a corridor (+/-7.5%) when compared to a market rateable strategy (although this will be mitigated by a cost base adjustment to ensure the risk the Company takes on is commensurate to the fee it receives). The Company is also responsible for negotiating and entering into new loadbook contracts. The agreement remains operational until both parties agree to terminate the agreement.

British Gas Energy Procurement Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

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.

With regards to the business environment, the Company has seen a fall in commodity prices driven by a reduction in global demand since 11 March. There are no significant operational changes specific to the Company in carrying out its principal activities.

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

The events described above arose after the Company's balance sheet date, and therefore there is no impact on the results or financial position of the Company as at 31 December 2019. The Company is supported by the Group, which has stated that it intends to support the Company for a period of at least 12 months from the date the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. The Directors are aware that there are a range of future potential financial impacts upon the Group as a result of the pandemic but, following assurances from the ultimate parent company underpinned by its detailed assessment, have satisfied themselves that the Group will be able to support the Company if required under all reasonably foreseeable circumstances. For more information refer to the Going Concern section of the Directors' Report on page 5.

British Gas Energy Procurement Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Key performance indicators ('KPIs')

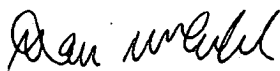
The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 18-19 of the Group's Annual Report and Accounts 2019, which does not form part of this report. The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

Future developments

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

The Directors expect the Company to continue to procure physical gas and power in order to supply BGTL.

Approved by the Board on 17/12/2020 and signed on its behalf by:



Alan McCulloch

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

Company registered in England and Wales, No. 08811254

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

British Gas Energy Procurement Limited

Directors' Report for the Year Ended 31 December 2019

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

Directors of the Company

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

M S Hodges (resigned 28 February 2019)

G Barbaro (resigned 31 August 2020)

S Sambhi (resigned 11 June 2020)

R Roy

I E Ronald (resigned 5 July 2019)

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

S Mussenden (appointed 1 July 2019)

The following directors were appointed after the year end:

J P Pikunic (appointed 24 July 2020)

P M Simon (appointed 24 July 2020)

Results and dividends

The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2019 is £37,000,000 (2018: profit £34,500,000).

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).

Future developments

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

British Gas Energy Procurement Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Going concern

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

Non adjusting events after the financial period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. The Company has no critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.

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:

British Gas Energy Procurement Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

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

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


Disclosure of information to auditors

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

Auditors

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

Approved by the Board on 17/12/2020 and signed on its behalf by:



Alan McCulloch

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

Company registered in England and Wales, No. 08811254
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

British Gas Energy Procurement Limited

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

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements which comprise:

- the *Income Statement*;
- the *Statement of Comprehensive Income*;
- the *Statement of Financial Position*;
- the *Statement of Changes in Equity*; and
- the related notes 1 to 18.

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.

British Gas Energy Procurement Limited

Independent Auditor's Report to the Members of British Gas Energy Procurement 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.

British Gas Energy Procurement Limited

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

Matters on which we are required to report by exception

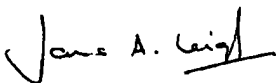
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.



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

Date: 17 December 2020

British Gas Energy Procurement Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ m	2018 £ m
Revenue	4	5,156.1	4,025.4
Cost of sales	5	<u>(5,130.4)</u>	<u>(3,999.4)</u>
Gross profit		<u>25.7</u>	<u>26.0</u>
Operating profit		25.7	26.0
Finance income	7	<u>20.0</u>	<u>16.6</u>
Profit before taxation		45.7	42.6
Taxation on profit	10	<u>(8.7)</u>	<u>(8.1)</u>
Profit for the year from continuing operations		<u>37.0</u>	<u>34.5</u>

The above results were derived from continuing operations.

British Gas Energy Procurement Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £ m	2018 £ m
Profit for the year	<u>37.0</u>	<u>34.5</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>37.0</u>	<u>34.5</u>

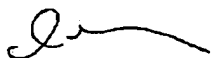
The notes on pages 14 to 25 form an integral part of these financial statements.

British Gas Energy Procurement Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £ m	2018 £ m
Non-current assets			
Derivative financial instruments	16	111.1	95.1
		<u>111.1</u>	<u>95.1</u>
Current assets			
Trade and other receivables	11	454.7	434.7
Inventories	12	89.9	198.8
Derivative financial instruments	16	865.4	182.7
		<u>1,410.0</u>	<u>816.2</u>
Total assets		<u>1,521.1</u>	<u>911.3</u>
Current liabilities			
Trade and other payables	13	(380.4)	(506.3)
Derivative financial instruments	16	(865.4)	(182.7)
		<u>(1,245.8)</u>	<u>(689.0)</u>
Non-current liabilities			
Derivative financial instruments	16	(111.1)	(95.1)
		<u>(111.1)</u>	<u>(95.1)</u>
Total liabilities		<u>(1,356.9)</u>	<u>(784.1)</u>
Net assets		<u>164.2</u>	<u>127.2</u>
Equity			
Share capital	14	-	-
Retained earnings		<u>164.2</u>	<u>127.2</u>
Total equity		<u>164.2</u>	<u>127.2</u>

The financial statement on pages 10 to 25 were approved and authorised for issue by the Board of Directors on 17/12/2020 and signed on its behalf by:



S Mussenden
Director

Company number 08811254

British Gas Energy Procurement Limited

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

	Share capital £ m	Retained earnings £ m	Total equity £ m
At 1 January 2019	-	127.2	127.2
Profit for the year	-	37.0	37.0
Total comprehensive income	-	37.0	37.0
At 31 December 2019	-	164.2	164.2

	Share capital £ m	Retained earnings £ m	Total equity £ m
At 1 January 2018	-	92.7	92.7
Profit for the year	-	34.5	34.5
Total comprehensive income	-	34.5	34.5
At 31 December 2018	-	127.2	127.2

The notes on pages 14 to 25 form an integral part of these financial statements.

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

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

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

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

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

2 Accounting policies

Basis of preparation

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

Changes in accounting policy

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

- IFRS 16: 'Leases'

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 first-time adoption did not have any impact on the financial statements as the Company has no leases which fall under the scope of IFRS 16.

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 Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

- disclosures in respect of the compensation of key management personnel;
- disclosures in respect of capital management; and
- certain disclosure requirements of IFRS 15 'Revenue from Contracts with Customers'.

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

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

Measurement convention

These Financial Statements are presented in pound sterling (with all values rounded to the nearest hundred thousand pounds (£100,000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Going concern

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

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is recognised on the basis of energy supplied during the year.

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.

Cost of Sales

Cost of sales includes the cost of gas and electricity purchased during the year including balancing costs of day ahead and within day trading. It also includes employee recharges from BGTL.

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.

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.

Inventories

Renewable Obligation Certificates ('ROCs') are valued at the lower of cost and estimated net realisable value.

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Financial assets and liabilities

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

- Trade and other receivables

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

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

- Trade and other payables

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

- Share capital

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

- Cash and cash equivalents

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

- Loans and other borrowings

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

Derivative financial instruments

The Company routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Company's expected sale, purchase or usage requirements ('own use' contract), and are not within the scope of IFRS 9.

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Company also holds derivatives which are not designated as hedges and are held for trading. All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

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

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

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.

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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

Flow agreement

Within the flow agreement between the Company and BGTL, the Company is deemed to be acting as principal given its role performing rebalancing and shaping activities along with sourcing of gas and power to meet BGTL's customer demand. On this basis the Company has recognised the flow agreement charge to BGTL within revenue.

Key sources of estimation uncertainty

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

Determination of fair values - energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). The judgements and the assumptions underpinning these judgements are considered to be appropriate. Any material change in the estimation of energy derivatives in the next 12 months would be offset by an equal amount due under the flow agreement on the statement of financial position and would have nil impact on the income statement.

4 Revenue

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

	2019	2018
	£ m	£ m
Sale of goods: Energy sales to BGTL	3,596.6	3,313.8
Sale of goods: Renewable Obligation Certificates	491.8	484.0
Unrealised gain on revaluation of the flow agreement with BGTL	1,025.7	185.6
Rendering of services: Service fee under flow agreement with BGTL	42.0	42.0
	<u>5,156.1</u>	<u>4,025.4</u>

All revenues of the Company were generated by activities in the UK in both the current and prior periods.

5 Analysis of costs by nature

	2019	2018
	Cost of sales	Cost of sales
	£ m	£ m
Commodities costs	(3,599.1)	(3,316.5)
Loss on revaluation of derivatives	(1,025.7)	(185.6)
Commodities costs: Renewable obligation certificates	(491.8)	(484.0)
Operational costs	(13.8)	(13.3)
	<u>(5,130.4)</u>	<u>(3,999.4)</u>
Total costs by nature		

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Employees' costs

The Company has no employees (2018: nil) and no direct staff costs (2018: nil). Any costs relating to employees are borne by other Group companies and recharged to the Company, as shown in note 5.

7 Net finance income/cost

Finance income

	2019 £ m	2018 £ m
Interest income from amounts owed by Group undertakings	20.0	16.6
Total finance income	20.0	16.6

8 Directors' remuneration

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

9 Auditor's remuneration

Auditor's remuneration totalling £75,000 (2018: £75,000) relates to fees for the audit of the Financial Statements of the Company.

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

10 Income tax

Tax credited/(charged) in the Income Statement

	2019 £ m	2018 £ m
Current taxation		
UK corporation tax at 19% (2018: 19%)	(8.7)	(8.1)

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

The 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:

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Income tax (continued)

	2019 £ m	2018 £ m
Profit before tax	<u>45.7</u>	<u>42.6</u>
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	(8.7)	(8.1)
Increase (decrease) arising from group relief tax reconciliation	0.5	1.3
Increase (decrease) from transfer pricing adjustments	<u>(0.5)</u>	<u>(1.3)</u>
Total tax charge	<u>(8.7)</u>	<u>(8.1)</u>

11 Trade and other receivables

	31 December 2019 Current £ m	31 December 2018 Current £ m
Amounts owed by Group undertakings	<u>454.7</u>	<u>434.7</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 £454.7m (2018: £434.7m) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.20 and 4.90% per annum during 2019 (2018: 3.72 and 4.13%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

12 Inventories

	2019 £ m	2018 £ m
Renewable obligation certificates	<u>89.9</u>	<u>198.8</u>

Renewable Obligation Certificates recognised as an expense in the year amounted to £492m (2018: £484m) and is included in cost of sales in the Income Statement. There is no significant difference between the replacement cost of inventories and their carrying amounts (2018: no significant difference).

13 Trade and other payables

	2019 Current £ m	2018 Current £ m
Accrued expenses	(341.7)	(357.2)
Amounts owed to Group undertakings	<u>(38.7)</u>	<u>(149.1)</u>
	<u>(380.4)</u>	<u>(506.3)</u>

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Trade and other payables (continued)

Included within the amounts owed by Group undertakings disclosed above is £38.7m (2018: £149.1m) which are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

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.

14 Capital and reserves

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary share of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</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.

15 Commitments and contingencies

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

	2019 £ m	2018 £ m
Commodity purchase contracts	12,339.6	16,178.4
Other commitments	294.7	414.4
	<u>12,634.3</u>	<u>16,592.8</u>

At 31 December the maturity analyses of the commodity purchase commitments on an undiscounted basis was as follows:

	2019 £ m	2018 £ m
Within one year	3,563.6	3,882.9
Between one and five years	7,577.7	8,821.8
After five years	1,198.3	3,473.7
	<u>12,339.6</u>	<u>16,178.4</u>

Other financial commitments

The total amount of other financial commitments not provided in the Financial Statements was £294.7m (2018: £414.4m). This related to commitments to purchase Renewable Obligation Certificates.

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Fair value of financial instruments

Determination of fair values

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

Fair value hierarchy

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

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

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

	2019 Instruments at fair value through profit & loss £ m	2018 Instruments at fair value through profit & loss £ m
Level 3 financial instruments		
1 January	(114.3)	(298.8)
Total realised and unrealised losses:		
Recognised in the Income Statement	1,010.2	184.5
31 December	<u>895.9</u>	<u>(114.3)</u>

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Fair value of financial instruments (continued)

Financial instruments carried at fair value

	31 December 2019			31 December 2018		
	Fair value and carrying value £ m	Level 2 ⁽ⁱ⁾ £ m	Level 3 £ m	Fair value and carrying value £ m	Level 2 ⁽ⁱ⁾ £ m	Level 3 £ m
Derivative financial assets - held for trading under IFRS9						
Energy derivatives- for procurement/ optimisation	64.0	15.2	48.9	227.6	164.5	63.1
Flow agreement	912.4	-	912.4	50.2	-	50.2
Total financial assets at fair value through profit or loss	976.5	15.2	961.3	277.8	164.5	113.3
Derivative financial liabilities - held for trading under IFRS9						
Energy derivatives- for procurement/ optimisation	(912.4)	(911.1)	(1.3)	(50.2)	(50.2)	-
Flow agreement	(64.0)	-	(64.0)	(227.6)	-	(227.6)
Total financial liabilities at fair value through profit or loss	(976.5)	(911.1)	(65.4)	(277.8)	(50.2)	(227.6)
Net financial instruments at fair value	-	(895.9)	895.9	-	114.3	(114.3)

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

British Gas Energy Procurement Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Fair value of financial instruments (continued)

There were no material transfers during the financial year between level 1 and 2.

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

	2019	2018
	£m	£m
Net deferred gains/(losses)		
1 January	(27.9)	(33.5)
Net gains deferred on new transactions	-	-
Recognised in the Income Statement during the year	5.4	5.6
31 December	<u>(22.5)</u>	<u>(27.9)</u>

17 Parent and ultimate parent undertaking

The immediate parent undertaking is British Gas Trading 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.

18 Non adjusting events after the financial period

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. The Company has no critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events. There have been no further non-adjusting significant events affecting the Company after the year end.