Helping you live sustainably, simply and affordably

Annual Report and Accounts 2021

centrica

Group Snapshot

At Centrica, we have been at the forefront of supporting homes, businesses and communities with their energy needs for more than 200 years.

We remain focused on giving customers what they want and need through our purpose of helping our customers live sustainably, simply and affordably.

At the heart of this, is our talented team of 20,000 colleagues including 7,000 engineers, who serve millions of customers every day through trusted brands like British Gas, Bord Gáis Energy and Centrica Business Solutions.

And central to it, is our commitment to provide responsible energy our customers can rely on. Alongside this, we're investing in our communities and creating the diverse and inclusive team we need for a greener future.

In doing so, we can add value for all of our stakeholders.

Read more about our People & Planet Plan on Pages 28 to 36

Sustainability

Find our more about our People & Planet Plan at centrica.com/sustainability

Read more about Stakeholder Engagement on Pages 8 to 9

Centrica Stories

Read more about our latest thinking, case studies and insights on the issues that matter at centrica.com/stories

Read more about our Chief People Officer's Report on Pages 26 to 27

Online Report

Read more about our Annual Report and Accounts at centrica.com/ar21

Find out more at centrica.com

Unless otherwise stated, all references to the Company shall mean Centrica plc (Registered in England and Wales No. 3033654); references to the Group shall mean Centrica plc and all of its subsidiary entities; and references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the Strategic Report are adjusted figures, reconciled to their statutory equivalents in the Group Chief Financial Officer's Report on pages 16 to 21. See also notes 2, 4 and 10 to the Financial Statements on pages 119, 125 to 131 and 143, for further details of these adjusted performance measures In addition see pages 238 to 241 for an explanation and reconciliation of other adjusted performance measures used within this document.

Strategic Report

Governance

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Group Highlights

Group Operational Performance

Brand net promoter score (NPS)[(1)]

2021	+13.0
2020	+8.7

Total recordable injury frequency rate (per 200,000 hours of work)[(1)]

2021	1.07
2020	1.04

Employee engagement[(1)]

2021	55%
2020	41%

Total carbon emissions (tCO_2e)[(1)]

2021	226,904†
2020	989,546[(2)]

Total customers[(1)]

2021	10,067k
2020	9,794k

Group Financial Summary (Year ended 31 December 2021)

Group revenue from business performance[(2)]:

£18.3bn

2020: £14.9bn ▲23%

Group adjusted operating profit from continuing operations:

£948m

2020: £447m ▲112%

Group statutory profit/(loss) from continuing operations:

£954m

2020: £(362)m

Group adjusted basic EPS from continuing operations:

4.1p

2020: 2.8p ▲46%

Group statutory basic EPS from continuing operations:

10.0p

2020: (4.7)p

Group statutory basic EPS from continuing and discontinued operations:

20.7p

2020: 0.7p

Group free cash flow from continuing operations:

£1,174m

2020: £685m ▲71%

Group statutory net cash flow from continuing operating activities:

£1,611m

2020: £957m ▲68%

Group net cash/(debt):

£680m

2020: £(2,998)m

† Included in DNV Business Assurance Services UK Limited (DNV)'s independent limited assurance engagement. See page 242 or centrica.com/assurance for more.
(1) Excludes Direct Energy which is now classified as a discontinued operation. Data relating to historical engagement scores may therefore differ elsewhere in the report.
(2) Restated due to changes in methodology following a move from equity to operational control.

Chairman's Statement

"We have made significant disposals that have simplified our Company, we have radically reorganised and changed the way we lead Centrica's workforce to make it fit for the future."

Scott Wheway
Chairman

Where we were

In last year's Annual Report, I said that we were clear about what we needed to do to turn around our business, but we had only taken the first steps in a marathon. Through 2021, the Centrica team have made good progress against many of those steps whilst also leading through the continuing COVID-19 crisis and unprecedented volatility in the energy and commodity markets. So, whilst we are still only partly through the marathon, we have made further inroads in key areas that give us a good foundation for 2022, and I'm proud of what the team has achieved.

When we asked Chris O'Shea to become Group Chief Executive in April 2020, nobody was under any illusion about the scale of the challenges we faced. Over a ten-year period, we had lost two million energy and one million services customers in British Gas, over half our earnings, and more than three-quarters of our stock market value. We had to quickly wake up to the reality that radical action was needed to ensure the business could survive and thrive in the future.

Where we are now

This year, Chris and the wider management team rose to the hard challenges we needed to face urgently. We have made significant disposals that have simplified our Company, we have radically reorganised and changed the way we lead Centrica's workforce to make it fit for the future, we have started to build operational capability in our customer-facing businesses to improve their efficiency, and we've navigated the very significant impacts of COVID-19.

Stabilising the balance sheet, reducing volatility, building capability

The completion of the sale of Direct Energy at the beginning of the year, for £2.7 billion, has materially strengthened our balance sheet and removed a source of significant earnings volatility from the Group. Coupled with the sale of our Norwegian oil and gas exploration and production assets, this allows us to focus more on our core businesses, where we have strong customer-facing market positions and capabilities.

Alongside this, the reorganisation of the business that commenced in 2020 included the delayering of the organisation so that colleagues are empowered and better reflect, serve and anticipate the needs of our customers. And implementation of new terms and conditions, which have been in place since April 2021, means that we can now compete more effectively and create more skilled UK jobs.

This year we have kept a relentless focus on improving our core business and our customers' experiences. However, ensuring that we have the capacity and capability to focus on our customer-facing energy and services businesses means letting go of the areas we don't see as part of our long-term future. The process to divest our interest in Spirit Energy had been ongoing since 2019, as we looked to exit Exploration and Production (E&P) in a way that maximises value for shareholders. I believe we have achieved this through the sale of Spirit Energy's Norwegian Assets and the Statfjord field. We will still hold our 69% stake in Spirit Energy's remaining UK and Netherlands assets, focusing on realising value from the remaining gas reserves and de-risking decommissioning liabilities. While we will continue to assess opportunities to exit from these remaining activities over time, Spirit Energy will also pursue potential opportunities to leverage existing infrastructure for net zero projects. We are keenly aware that we are custodians of key pieces of national infrastructure that may have an important role in the transition to net zero.

We are focusing on returning our core UK businesses to growth

I am all too aware that the shareholder experience has been challenging after too many years of disappointment and unacceptable performance, and it's my job to make sure our Company is stewarded in the right direction to create and grow a sustainable business and, as a consequence, unlock shareholder value. Your Board is very mindful of the importance of the dividend to shareholders, and it remains under active consideration. Whilst the share price increased by around 50%, we are very conscious this was from a low base. We've made progress, and many of the building blocks are in place, but we still have some way to accelerate the type of sustainable growth that we strive to deliver. As part of this, the continuous improvement of our customers' experience will be front and centre of our efforts in 2022.

The changing energy landscape

We saw unprecedented increases in wholesale commodity prices over the second half of 2021, resulting in an energy crisis in the UK. The scale of this crisis has been damaging for the whole energy sector, with millions of customers impacted by the failure of their supplier. Many lessons must be learned from this crisis, but the simple facts are that customers were encouraged to switch to suppliers that did not have sufficiently robust business models. In some cases, these suppliers played fast and loose with their customers' money, and the costs of these failures will run into billions of pounds which, under the present regulations, will be added to everyone's bills, even those customers that stayed with trustworthy companies such as British Gas. This must never be allowed to happen again, and, as you might expect, we have been engaging constructively with Ofgem and the Government on the future of retail energy markets in the UK, calling for more and tighter regulation. We are committed to supporting proposals that protect and put the customer at the heart of the solution while ensuring that well run and responsible energy suppliers can make a fair return.

Net zero

At Centrica, we understand that we are an important stakeholder in the drive to net zero. There are some big questions still to be answered around the decarbonisation of our homes and businesses and the associated infrastructure needed to accelerate progress in areas such as electric vehicles. We will continue to ask the hard questions about how we find an affordable and practical path to allow our customers to transition to net zero whilst working with Government and regulators on this issue.

We see our role as the guardians of customers to help them through the net zero transition. This presents a significant opportunity for our services and solutions businesses and Centrica as a whole. With the largest services field force in the UK, our people are in the best position to deliver the low carbon heating solutions that will make net zero a reality. In support of this, I'm pleased that we were able to launch our Climate Transition Plan in 2021, which sets out our roadmap to become a net zero business by 2045 and help our customers do the same by 2050.

As a Board, we have allocated time to upskill ourselves on the carbon transition. Building Board capability in this area is essential as we look at balancing the need to decarbonise with the needs of our customers and the long-term needs of the country.

Moving forward

Our Company is moving in the right direction, but there is still a lot to do as we build our capability. The organisation's culture is changing for the better, with colleagues more engaged, empowered and feeling part of an inclusive environment. I want to thank all Centrica colleagues for their hard work and dedication during what was another challenging year for everyone.

Our purpose, 'Helping you live sustainably, simply and affordably', is now embedded not only in our thoughts and words but also in our actions. We need to remain focused on ensuring that the Centrica of the future will concentrate on energy supply and services that help our domestic and business customers transition to a low carbon world. There are many exciting opportunities ahead of us, and I look forward to updating you on further progress next year.

Scott Wheway
Chairman
23 February 2022

Read more about our performance Pages 16 to 25

Read more about our governance Pages 48 to 49

Group Chief Executive's Statement

"Throughout 2021 we've been working hard to steer your Company in the right direction. Whilst we still have a long way to go, there are positive signs that we are beginning to turn around our business."

Chris O'Shea
Group Chief Executive

It appears that this decade may be one of the most eventful for a long time, one where we learn and adapt more quickly than we've done in the past. COVID-19 has now been with us for almost two years, and we are learning to live with it. The development and roll-out of vaccines are at a pace we have never seen before, and people are adapting to a profound change in how we live our lives with incredible resilience. It hasn't been easy, but it's amazing what we can achieve when we all work together.

Approaching the need to remove carbon from our atmosphere in the energy transition, in the same way, is critical. At Centrica, we choose to see the opportunity in net zero, not the obstacles. The opportunity to contribute to the essential reduction in climate change; to create thousands of well-paid, skilled jobs; to help our customers decide the best path to net zero for them; and to make net zero achievable by making it affordable. It's both daunting and exciting; a huge challenge but also a huge opportunity for Centrica, whether you call it the energy transition, net zero, or decarbonisation.

Throughout 2021 we've been working hard to steer your Company in the right direction. Whilst we still have a long way to go, there are positive signs that we are beginning to turn around our business. We clearly need to improve our customer service levels, particularly in British Gas Services & Solutions where absence levels more than doubled in 2021, meaning we struggled to provide as high a level of service as I would have liked. Central to this journey is our continued and relentless focus on simplifying our business, building the workforce to deliver net zero, and empowering those colleagues to deliver the best for our customers – happy colleagues mean happy customers, which leads to happy shareholders.

Building the workforce for a net zero future

Reaching an agreement with colleagues and implementing new terms and conditions were critical steps to put us on a steady footing to compete. We had seen our customer numbers and share price decline for many years and this prevented us from creating new jobs. I regret the pain felt by colleagues and customers during this process. But it has allowed us to get back to recruiting in a big way. This underpins our commitment to creating at least one new apprenticeship for every day of this eventful decade.

I'm pleased that in 2021 we created around 600 new, highly skilled and well-paid British jobs through our apprenticeship scheme.

Whilst we have some way to go to achieve our 2030 ambition that 50% of these recruits are women, we are making inroads with over 25% of our apprentices recruited this year being women. These are the engineers who will install and maintain your smart meter, electric vehicle charge point, hydrogen boiler, electric heat pump, radiators, and hot water tanks. These are the people who will deliver the net zero future of the UK. We are doing all of this today, and we'll be doing more tomorrow.

Listening to colleagues

Our colleagues are vital to turning around our business. This year, we have spent more time than ever before listening to colleagues and acting on what we hear. Colleague engagement has been unacceptably low over recent years, and we have set a target of achieving engagement levels seen in high-performing companies over three years. This requires an average increase of 10 percentage points per year. I think we are beginning to turn a corner, with colleague engagement scores increasing by 13 points over the year to 55%. Engaged colleagues will see the opportunities rather than the problems; empowered colleagues will deliver those opportunities.

Although there is still a long way to go, I am encouraged that we are heading in the right direction. We launched our Shadow Board this year, which comprises colleagues from across the business and in different locations. They are empowered to influence decisions, positively disrupt assumptions, challenge my thinking and that of the Centrica Leadership Team, and advocate for colleague-centred decision-making. I'm already enjoying our meetings and the valuable and diverse perspectives of our Shadow Board.

And we've made great progress on creating a workplace where everyone feels welcome and included. I am incredibly proud of the work achieved in collaboration with our many colleague networks to raise awareness and produce guidelines for topics that have been considered workplace taboos for far too long, including menopause, fertility, domestic abuse and gender transitioning. At Centrica, nothing is off the table – we will discuss anything our colleagues want us to.

Simplifying the portfolio

Whether it's the £2.7 billion disposal of Direct Energy completed in early 2021; the headline price of £0.8 billion for the disposal of Spirit Energy's Norwegian business; or the smaller disposals of Io-Tahoe, an AI-driven data management business, and the former British Gas headquarters in Staines; we are focusing on our core capabilities, so we can improve, strengthening our foundations so we can grow.

Although the disposal of Spirit Energy's Norwegian business took longer than we would have liked, we wanted to make sure we got the right deal, and this meant making sure we sold the business to people who could give us the confidence they would meet the substantial associated decommissioning liabilities for two reasons: firstly, to make sure the assets are decommissioned in a way which is right for our planet; and secondly, to make sure the cost doesn't come back to Centrica. Whilst we have retained Spirit Energy's assets in the UK and the Netherlands, we won't invest in exploring for new hydrocarbons. We'll use the cash flows generated by Spirit to meet the remaining decommissioning obligations. The business is in run-off, and we'll seek to realise value through a combination of running fields to the end of their life, selling fields to responsible buyers, or, where possible, converting fields to aid in the energy transition, for example, capturing and storing carbon.

Simplifying the business

Our new business unit structure and delayered organisation are now established. As part of this, we split British Gas into two separate businesses: British Gas Energy and British Gas Services & Solutions. This allows us to focus on what's important for customers who often have different needs; however, the businesses will also continue to work very closely alongside each other to deliver combined solutions to those customers who want both energy and services. Both businesses have new managing directors appointed this year. Catherine O'Kelly, who has been with Centrica since 2011 and most recently led Bord Gáis Energy in Ireland, looks after British Gas Energy. Jana Siber looks after British Gas Services & Solutions, having joined us early in 2022 from Arriva Group, where she was managing director for Mainland Europe. I am delighted to have Catherine and Jana in these roles; they both bring a wealth of experience with them.

Reflecting on our 2021 financial performance

Kate Ringrose, our Group Chief Financial Officer, covers the financial performance in detail on pages 16 to 21. On the whole, we managed the volatile external environment well during 2021.

We continue to focus on cash flow generation and balance sheet strength, and ended the year with net cash of £680 million compared to net debt of £2,998 million at the end of 2020, as we received proceeds from the Direct Energy sale and maintained a tight focus on costs, capital expenditure and restructuring spend across the Company.

Adjusted basic earnings per share from continuing operations were up 46% to 4.1p as the positive impacts of higher commodity prices on our Upstream activities, cost efficiencies and a partial recovery from COVID-19 impacts in 2020 more than offset the impact of a disappointing British Gas Services & Solutions performance and lower Energy Marketing & Trading profit.

Statutory basic earnings per share from continuing operations were 10p compared to a loss of 4.7p in 2020, which included the impact of material impairment of Upstream assets due to the increase in commodity prices.

Responsible energy

We've seen substantial increases in global wholesale energy prices, which will inevitably lead to higher prices for all energy customers. We provide energy to retail customers principally in two countries, Ireland and the UK, which are part of a global energy market and dependent on gas imports; both are part of a very interconnected European electricity and gas market. Recent months have seen an unprecedented change in these markets, with a surge in European electricity and global gas prices exposing the fragility of suppliers with unsustainable business models. The current situation demonstrates the importance of having a responsible business model and a disciplined approach to hedging and risk management, with the capabilities in our Energy Marketing & Trading business proving particularly valuable.

The collapse of energy suppliers, principally in the UK, has resulted in millions of customers being moved to new suppliers through Ofgem's Supplier of Last Resort Process. We played our part to support customers, taking on more than 700,000 new customers from failed suppliers since 1 January 2021 to date and ensuring their continued supply of gas and electricity. This is a distressing time for those customers and a worrying time for all customers, and we will do everything we can to help.

Again, we see a huge opportunity to fix issues in the UK's complex energy regulations to ensure this crisis never happens again by simplifying and strengthening regulations to protect customers.

We want the regulator to retain but reform price regulation.

The sector is collectively loss-making, and this means it is not sustainable. The regulator and suppliers need to work together to reform price regulations in a way that is fair to all customers, protects vulnerable customers through the transition to low carbon and attracts the investment needed to meet the net zero challenge.

Right now, consumers are paying the price for multiple supplier failures largely due to irresponsible practices and poor business models. The energy retail market requires stronger prudential regulation to ensure those involved in the industry are fit and proper, companies have adequate capital and properly monitored risk management procedures, and customer deposits are properly protected. Requiring every customer in the UK to pay to replace customer deposits spent by failed companies is not the same as safeguarding customer deposits. We believe energy suppliers in the UK should be able to refund all customer deposits on demand. As a responsible supplier, we separately identify customer deposits, and held nearly £300 million in a separate bank account as at the end of 2021. We have urged our regulator, Ofgem, to make this a requirement for all energy suppliers without delay. Until this happens, we run the wholly unacceptable and very real risk of history repeating itself.

The focus of regulation also needs to change. It needs to be about customer requirements and protection rather than success being measured mainly by customer switching rates. Recent changes and announcements from Ofgem are a step in the right direction but much more is needed.

Ofgem have also launched proposals to implement additional assessments for energy market participants from 1 April 2022 and a consultation on proposed changes to the supplier licence application guidance. We wait to see the exact nature and timing of any changes and we'll continue to engage with Ofgem on the future of retail energy markets in the UK, to ensure that well run, responsible suppliers can make a fair return.

Playing our part to tackle climate change

COP26 was a significant moment for the UK, and it highlighted, once again, the existential threat of climate change. I had the privilege of attending the summit, where I saw the business community's increased presence, which is a positive thing because collaboration with all parts of society is critical for developing new technologies, new thinking, and renewed determination to tackle climate change.

If we all work together, we will deliver net zero. As for the outcome of COP26, I think it's a step in the right direction, and now we have to build on the momentum. We'll do everything we can on this front, working with all of our commercial partners, customers, government and non-governmental organisations.

The solutions to climate change require a range of technologies, including increased electrification and decarbonised gas such as hydrogen. Ideally, we'd all like decarbonisation to happen tomorrow, but in reality, it can't. We need to use gas in the interim and, for many years to come, to help us to get net zero. It may be an unpalatable truth for some, but we must favour pragmatism over ideology to achieve the end goal. It's why I am sceptical of people pushing for a one-size-fits-all approach because it doesn't help. Our customers want hassle-free and affordable solutions. As the UK and Ireland's biggest electricity and gas supplier, we speak from more than 200 years of experience.

We must realise that everyone's circumstances are not the same, so we must ensure that the transition to net zero is fair and affordable for all so nobody gets left behind. This is the ethos that runs through our Climate Transition Plan, which we launched in 2021 to outline in detail how we intend to become a net zero business by 2045 and use our services and solutions capability to help our customers be net zero by 2050. We will never tire of advocating for our customers – we want to do this with our customers, not to them.

Continuing what we started

Many of our colleagues had the honour of participating in the London Marathon this year for our charity partner, Carers UK. There are interesting parallels between running a marathon and turning around our business. First, you have to build a resilient mindset. You need to invest in training and make sure that you have the right resources at the right time to go the distance. You need a solid plan of action and must be prepared to face any challenges along the way.

Over the past year, our people have started to adopt a winning mindset, and I have seen that our passion and determination to succeed is beginning to gain momentum. We have a plan of action underpinned by our purpose, and customers are at the heart of it. Whilst there is still a long way to go to turn around our business, we have started the race, and in 2022, we will pick up the pace when hopefully the worst of COVID-19 will be behind us, resulting in absence returning to more normal levels and service improving. We'll continue to focus on the end goal; by doing that, we'll put ourselves in the best position possible to drive further improvements in our performance and ultimately deliver long-term shareholder value.

I am well aware of how the stresses of the past two years have affected colleagues and customers, and I hope you and your loved ones are safe and well. Rest assured, we'll continue to do all we can to support colleagues and customers through difficult, uncertain times. And we'll see the opportunities where others see the obstacles.

Chris O'Shea
Group Chief Executive
23 February 2022

Read more about Our Strategy Pages 10 to 11

Read more about our People Pages 26 to 31

Read more about our Planet Pages to 32 to 35

Read more about our foundations Page 36

Our Purpose

By living our values, we will be better able to fulfil our purpose and help our customers live sustainably, simply and affordably.

Our Values

Macro Trends

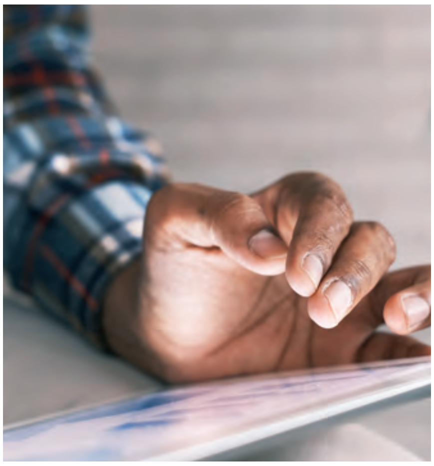
Our business is exposed to a range of macro trends which shape the landscape in which we operate over the medium to long term. These trends span across industries, underpinning our business model, and forming a core part of our strategic outlook.

Climate Change

Climate change is an increasingly important consideration in all our lives, with carbon emissions continuing to be the key driver. The impetus to act has never been greater with increasing social demand and regulatory mandate to decarbonise across all sectors. Climate change is the most important strategic driver guiding Centrica today and is a core part of our purpose.

How we're responding

- We've clearly outlined our plans for how we intend to decarbonise power, heat and transport through our Climate Transition Plan published October 2021.
- We will continue to build out our green supply and solutions offerings for customers.
- We're training the next generation of apprentices to deliver low carbon technologies like heat pumps and electric vehicle chargers while exploring the future of hydrogen.
- We're committed to creating additional green generation with up to £500 million to deploy through Centrica Energy Assets in renewable and flexible assets by 2025.



Digitalisation

Digitalisation will be key to creating the flexible energy system of the future and we have positioned ourselves at the heart of that. Customers demand that their homes and businesses become increasingly connected, controllable and flexible and we have market leading solutions to help them do that.

How we're responding

- We are deploying our leading FlexPond™ aggregation and optimisation technology to help use energy in the most efficient way in homes and businesses to help balance the grid.
- Through Hive we bring our customers closer to their energy allowing them to precisely control and monitor their homes.
- Through digitalising our energy and services businesses with new, flexible platforms we will be able to ensure our customers have access to quality service at a competitive price.

Consumer Focus

Consumers are driving our behaviour more than ever as their priorities shift towards greener offerings and hassle-free digital customer experience while still being cost conscious. As a business we continue to strive towards always delivering for our customers in line with our purpose.

How we're responding

- We have embedded the restructuring of our business allowing us to respond to our customers' needs more easily.
- We are focused on becoming the most competitive supplier delivering cost efficiency through agile new systems.
- We are committed to helping enable the transition to net zero and will continue to provide the best energy and heating solutions to our customers', tailored to their needs.
- Advocating for the policy changes needed to reach net zero on our customers' behalf.

Stakeholder Engagement

Stakeholder expectations are rising. They want a better service and improved solutions, with peace of mind that we're contributing positively to people's lives whilst protecting the planet.

With energy being fundamental to how we all live, work and move, we know that our actions can have a big impact on a broad range of stakeholders. That's why we're fully committed to maintaining constructive relationships with all of our key stakeholder groups who may be impacted by our activities or have responsibility for how the sector operates. And by establishing an open dialogue with these stakeholders and considering their views on an ongoing basis, we can ensure our strategy continuously evolves in line with their expectations. This not only enables us to create better outcomes for society and the environment, but it enables us to grow the success of our business and furthers our ability to deliver on our purpose to help our customers live sustainably, simply and affordably. Whilst our Directors are often responsible for making key decisions as a result of engagement with stakeholders, associated actions are often then delegated to senior leaders who are best placed to ensure the desired outcome is delivered.

Section 172 (1) Companies Act 2006 Statement

The Directors consider that they have performed their fiduciary duty, as stipulated under Section 172 of the Companies Act 2006 (Section 172), in good faith to promote the success of the Company for the benefit of its members as a whole in its decision-making.

These pages set out who our key stakeholders are together with an example of how engagement was vital to navigating one of the most material issues our business and sector faced in 2021.

Read more about how the Board engages with stakeholders and makes decisions on Pages 56 to 57

CENTRICA STORIES

Engagement during an energy crisis

During 2021, the energy market faced unprecedented challenges as global supplies of gas constricted and demand surged. This resulted in higher gas prices and led to over a third of all the UK's energy suppliers going out of business over a short period of time.

Because we manage the risks facing our energy retail business robustly, we were adequately hedged and had sufficient capital to face the challenge. The Directors alongside specialists in Corporate Affairs and Regulatory Affairs worked at pace with the UK Government and Ofgem, to limit the distress to customers by agreeing to take on and pick up the initial cost of onboarding around 700,000 customers from failed energy suppliers. We also engaged parliamentarians across the UK to ensure they were up to date with the situation and provided information leaflets alongside drop-in sessions, to help answer their questions whilst raising awareness of the support available for constituents.

In recognition of household budgets coming increasingly under pressure with the rising cost of energy, we took additional action to support customers. We froze direct debits for customers over the winter, provided extra signposting of support, and launched a £4 million Fuel Fund to specifically target our most vulnerable customers. Moreover, we collaborated with the British Gas Energy Trust, an independent charity funded solely by British Gas, to run a nation-wide marketing campaign that encourages anyone in need of assistance with their energy bills to get in touch. These efforts led to a significant number of people coming forward and receiving the support they needed.

We continue to work with Ofgem and the UK Government to identify ways of improving the robustness of the regulatory framework to ensure the sector is more resilient to similar crises in the future. Towards this, we gave evidence at the House of Lords and discussed the need to introduce more robust controls with Ofgem – from making sure every supplier hedges properly, to ensuring they've the right risk management policy and amount of capital to deliver on their commitments to customers, which includes ensuring customer credit balances are protected. We've also encouraged Ofgem to spread recovery costs over a longer period to reduce the burden on hard-pressed households. Consequently, Ofgem has published an action plan, by which it intends to improve the financial resilience of energy suppliers.

Read more about our Fuel Fund at centrica.com/fuelfund

Our key stakeholders

Customers

To be a truly customer-focused business, it's vital that we listen to our customers and act on their feedback. In doing so, we can understand what they want and what they need across a range of issues such as customer service, energy efficiency and new products, as well as pricing and support with their energy bills. And if we get it right, we'll be able to grow our customer base and fulfil our purpose of helping them live sustainably, simply and affordably. Various engagement methods are used including focus groups and surveys, as well as proposition and usability testing.

Read more about customer engagement on Pages 8, 15, 36 and 56 to 57

Colleagues

Feedback from colleagues is essential for developing a workplace where everyone can be themselves and thrive. This helps us attract, promote and retain diverse talent, which is core to our ability to deliver for customers. Issues raised and discussed include reward, development and inclusion alongside business strategy and transformation. Feedback is sought through channels such as our Shadow Board of diverse colleagues who regularly meet with leaders, townhalls, quarterly engagement surveys, performance reviews and structured engagements with trade unions.

Read more about colleague engagement on Pages 4, 26 to 27, 28 to 31, 36 and 56 to 57

Investors

Shareholders and debt holders provide funds that help us run and grow our business, and they expect a sustainable return. The Directors are conscious of the need to act fairly for different types of investors so we aim to consider and reflect their views when we update on our strategy, financial and operational performance alongside our Environmental, Social and Governance (ESG) considerations. To support this, we regularly engage investors throughout the year via investor roadshows, meetings and the Annual General Meeting (AGM), as well as responding to information requests and assessments from ratings agencies.

Read more about investor engagement on Pages 33, 56 to 57 and 59

Government and Regulators

Government and regulatory policies can have a significant impact on how we do business. The Directors therefore recognise the importance of working together towards ensuring a viable regulatory environment where policy is developed in the interests of consumers, whilst enabling a sustainable and investable market. We share our expertise through extensive participation in consultation processes, meetings and site visits, in order to support effective policy development and reforms on a range of topics – from market design, skills and employability requirements, to the role we can play in supporting decarbonisation.

Read more about government and regulator engagement on Pages 8, 33 and 56 to 57

Suppliers

The Directors fully support collaboration with suppliers. This is because collaboration helps us reduce risk in our supply chain and maintain high standards of business conduct, which in turn brings benefits to communities and the environment. We endeavour to work with like-minded suppliers that are aligned to these ambitions. We interact with suppliers in multiple ways such as tendering, surveys, site inspections and remote worker surveys. Engagement covers topics that include payment practices alongside strengthening social and environmental compliance on issues like human rights.

Read more about supplier engagement on Pages 36 and 56 to 57

Communities and NGOs

Communities expect companies to give back by supporting issues that are important to them. And here at Centrica, we're passionate about sharing our time and money to work alongside charities, non-governmental organisations (NGOs) and community groups, to create stronger and more inclusive communities together. Through meetings and collaborative research projects, the Board is armed with a greater understanding of community issues and has full regard of their views, as well as the likely consequences their decisions will have. Engagement is focused on efforts to tackle urgent social and environmental issues like fuel poverty and climate change.

Read more about community and NGO engagement on Pages 30 to 31 and 56 to 57

Our Strategy

Strategic context

Our strategy is driven by our purpose to help our customers live sustainably, simply and affordably. As the pace of change continues to accelerate, we are responding by focusing colleagues and technology on helping businesses and households to use energy more efficiently and sustainably. We recognise the need to help enable a more flexible energy system and are deploying a range of technologies to help build the grid of the future with both electric and hydrogen technologies. Additionally, in October 2021, we announced the creation of Centrica Energy Assets, to develop low carbon and transition assets to provide clean, flexible power solutions to the grid.

Sustainability

We are committed to making big changes that will create a more inclusive and sustainable future. By cutting both our own and our customers' emissions on a path to net zero, we will help create a new, more sustainable energy, services and solutions landscape.

Simplicity

We are simplifying and modernising our business to allow us to put customers at the heart of everything we do with the aim of making their lives simpler and easier. We recognise that customers need clear simple solutions to help them make the transition to net zero.

Affordability

Being able to reach net zero in an affordable way is core to our customers' futures, so we are striving to provide energy, services and solutions through our trusted brands that deliver value for all.

Market trends

Key market trends and factors affecting our business and potential future development performance and position, bring risks and opportunities for Centrica, steering our strategy.

- Changes in our ways of living and working in response to COVID-19
- Unstable market conditions and rising commodity prices resulting in a changing competitive landscape in the UK retail market
- Increasing price pressures as consumers face challenges of high inflation environment
- Clearer government support and targets for decarbonisation
- Low carbon technology deployment accelerating, system flexibility increasingly important
- High importance of ESG driving corporate decarbonisation targets
- Increased regulator and consumer activism, and high levels of competitive intensity
- Gas continues to become a global market with implications for consumers
- Role of data and automation increasingly important in providing high quality, tailored offerings

Customer needs

- Trusted, credible and sustainable energy suppliers
- Hassle-free, empathetic, personalised and safe service
- Responsible options (including green tariffs) and expert guidance to help customers achieve net zero
- Lower costs, greater efficiency and increased flexibility
- Complete solutions, not just products

Read more about Our Risks and Uncertainties Pages 38 to 43

Our approach

We remain committed to helping our customers on the journey to carbon reduction and ultimately net zero, through providing low carbon energy and services, innovation, increasing energy efficiency and investing directly in renewable energy. Our focus continues to be delivering against our ambitious targets to make Centrica a net zero business by 2045 and help our customers be net zero by 2050 at the latest.

We will:

- Lead by example – have a zero emission fleet of vehicles by 2025.
- Continue to look to reduce our exposure to hydrocarbon production.
- Continue to offer market leading renewable electricity products for our customers.
- Invest directly in developing solar and storage assets
- Support the development of hydrogen as a replacement for natural gas.
- Enable low carbon transportation and heating solutions.
- Continue to find ways to help our customers use less energy and reduce their carbon footprint.
- Create thousands of green skilled jobs to deploy a range of new and emerging technologies including heat pumps and hydrogen ready boilers.

Read more about our Climate Transition Plan ambitions on Pages 32 to 35

Our Group priorities

In 2019, we evolved our focus on five key priorities to deliver our strategy and we align performance and risk management processes around these, including our Key Performance Indicators. Our Group Priorities are underpinned by safety, compliance and conduct.

- Customer obsession
- Operational excellence
- Most competitive provider
- Cash flow growth
- Empowered colleagues

Our near-term strategic objectives

1. **Simplify the organisation to free up colleagues to focus on customers and to reduce costs.**
2. **Build the workforce and capabilities of the future so we can continue to lead in heating solutions.**
3. **Build out an asset base to support our customers, the grid and the broader energy system through the energy transition across green power and clean gas.**
4. **Maintain a strong balance sheet enabling future net zero investment and returns to shareholders.**

We are focused on turning Centrica around, resulting in a stronger core business with a robust balance sheet enabling us to build on our longer-term growth ambitions in the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading, optimisation and energy assets. Through careful governance we continue to monitor our progress against key objectives ensuring that we can meet our strategic objectives.

Our People & Planet Plan

We have introduced our People & Planet Plan to create a more inclusive and sustainable future that supports communities, our planet and each other. Our five Group-wide goals accelerate action in areas where we can make a big difference which includes being a net zero business by 2045 and helping our customers be net zero by 2050 at the latest, whilst building the diverse and inclusive team that will help us get there.

Read more about our People & Planet Plan on Pages 28 to 36

People

Supporting every colleague to be themselves to better serve our customers and communities

Planet

Supporting every customer to live more sustainably

Our Business Model

Our business model is designed to allow us to focus on meeting the changing energy supply, services and solutions needs of our customers, helping them transition to a lower carbon future while positioning ourselves to deliver returns for shareholders and meet our broader obligations to society.

Our strategic framework

For consumers

We want to make people's lives simpler, by providing seamless, time-saving services that are affordable and sustainable. Understanding and satisfying consumer needs is critical to our success.

Energy supply

Gas supply Electricity supply

Home services and solutions

- Protection products (central heating, plumbing and drains, home electrical, and kitchen appliance cover).
- On-demand services (service, repair, and home improvements).
- Installation of heating systems and electric vehicle charge points.
- Smart meter installations and delivering energy efficiency through the Energy Company Obligation scheme.
- Smart heating and energy management, remote diagnostics, and monitoring solutions.

For business

As a trusted energy partner for our business customers, we provide the energy and solutions to help them operate more efficiently and sustainably to achieve commercial success.

Energy supply

Gas supply Electricity supply

Energy trading and optimisation

- Aggregation and optimisation of distributed energy resources.
- Access to energy, capacity and flexible markets including demand response.
- Route-to-market and commodity risk management services.

Business services and solutions

- Design, install, maintain and service a wide range of technology solutions.
- Energy resource management and monitoring.
- Operational insights from energy data to help with preventive maintenance.

For assets

With a commitment to helping deliver the energy system of the future we are investing in green and flexible assets while driving exploration of new green solutions.

Asset Investment

- Direct investment in developing low carbon and transition assets.
- Investment in developing new technologies and enabling wider renewable development.

Hydrogen development

- Continued investigation of potential Hydrogen and carbon storage on industrial scale.
- Exploring novel technologies which could enable scale hydrogen adoption.

Group financial framework

In 2019 we set out a financial framework intended to enable us to deliver long-term shareholder value through returns and growth. Since then both our business and the markets we operate in have changed significantly, and as such our intention is to communicate a new financial framework over the course of 2022 that reflects our business as it stands today and enables us to achieve our future aims.

In the immediate term, our core aim is to maintain a strong balance sheet and as such we will target a net debt/EBITDA level that is sustainable and consistent with our investment grade credit ratings. We will also continue to focus on free cash flow generation, underpinned by focused cost management. We will also remain disciplined in the deployment of capital. Maintenance capital expenditure excluding Spirit Energy is expected to remain around its current level of £100 million per annum and we'll also look to invest in growth opportunities in support of the energy transition subject to appropriate returns, for example in gas-peaking plants, solar and battery.

Having taken the decision in 2020 to cancel our 2019 final dividend in response to the COVID-19 pandemic, with the actions we have taken over the past two years and our triennial pension negotiations due to conclude in the first half of 2022, we now have a clear path to restarting the dividend.

In addition, the risks to achieving the Group's strategy are monitored and reported regularly.

For more information on managing our exposure to risk, see Our Principal Risks and Uncertainties on Pages 38 to 43

Our Businesses

We have embedded our new structures across the organisation and created a modernised and simplified Centrica, with the heads of each business unit reporting directly to the Group Chief Executive. The disposals of Direct Energy and the announced sale of Spirit Energy's Norwegian E&P assets mean we are more focused on our core UK and Ireland markets and with our ambitions to invest in low carbon and transition assets through Centrica Energy Assets, we are building towards the green Centrica of tomorrow.

The Company operates with five customer-facing businesses, which will continue to focus on the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading and optimisation.

We also currently have an Upstream division comprised of our oil and gas E&P assets, including the Rough field, and our nuclear power generation business.

Our businesses are listed here

British Gas Energy

Supplies energy to residential and small business customers in England, Scotland and Wales.

British Gas

Read more about British Gas Energy at centrica.com/british-gas

British Gas Services

Provides services and solutions to residential customers in England, Scotland and Wales.

British Gas

Read more about British Gas Services at centrica.com/british-gas

Bord Gáis

Provides energy supply, services and solutions to residential and business customers in the Republic of Ireland.

Bord Gáis Energy

Read more about Bord Gáis at centrica.com/bord-gáis

Centrica Business Solutions

Provides energy supply to larger business customers in England, Scotland and Wales, and low-carbon energy solutions for business customers internationally. Now includes Centrica Energy Assets focused on building out a portfolio of utility scale solar, battery and flexibility assets

centrica Business Solutions

Read more about Centrica Business Solutions at centrica.com/cbs

Energy Marketing & Trading

Is the trading and optimisation arm of Centrica, and is also responsible for managing commodity risk and sourcing energy on behalf of the Group's energy supply activities in the UK.

centrica Energy Trading

Read more about Energy Marketing & Trading at centrica.com/emt

Upstream

Includes our oil and gas E&P assets, our 20% interest in the UK's nuclear power generation fleet and the Rough field. We have signed an agreement to sell our E&P Norwegian assets and will explore strategies for our remaining portfolio focused on realising value and minimising further investment in exploring for new hydrocarbons.

SPIRIT ENERGY centrica storage

Read more about Upstream at centrica.com/upstream

Key Performance Indicators

Our Key Performance Indicators (KPIs) help the Board and executive management assess performance against our Group Priorities set out in 2019.

Our Group Priorities

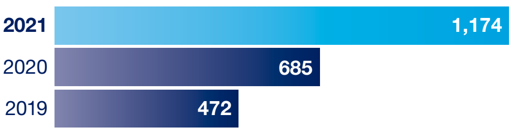
Customer Obsession | Operational Excellence | Most Competitive Provider | Cash flow Growth | Empowered Colleagues | Safety, compliance and conduct foundation

Read more about Our Group Priorities on Page 11 and **Our Strategy** Pages 10 to 11

Read more about Remuneration on Pages 71 to 94

Read more about adjusted performance measures on Pages 238 to 241

Group free cash flow from continuing operations (£m)[(1)(2)]



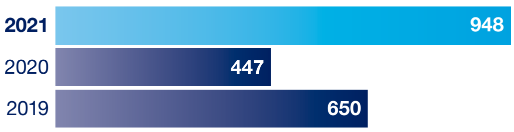
Free cash flow from continuing operations is the Group's primary measure of cash flow. It reflects the cash generation of the business after taking into account the need to continue to invest.

Free cash flow increased by 71% predominantly as a result of the increased operating profit in the Upstream segment.

Link to Remuneration
Short-term incentive

Link to Group Priorities

Group adjusted operating profit from continuing operations (£m)[(1)(2)]



Group adjusted operating profit from continuing operations is one of our fundamental financial measures.

Group adjusted operating profit was up 112% predominantly reflecting increased profit in Upstream.

Link to Remuneration
Short-term incentive

Link to Group Priorities

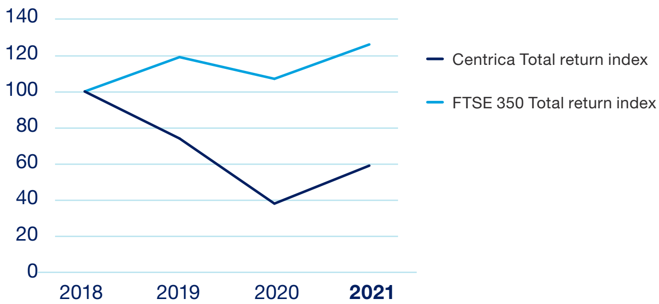
Group adjusted basic earnings per share from continuing operations (EPS)[(1)(2)]

EPS is a standard measure of corporate profitability. Adjusted EPS is used to measure the Group's underlying performance against its strategic financial framework.

Group adjusted basic EPS was up 46%, reflecting the increased operating profit partly offset by a higher tax rate.

Link to Group Priorities

Total shareholder return (TSR) by year



The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Link to Remuneration
Long-term incentive

Link to Group Priorities

(1) Excludes Direct Energy which is now classified as a discontinued operation. See notes 3 and 12 to the Financial Statements for further information.
(2) See notes 2, 4 and 10 to the Financial Statements for definition and reconciliation of these measures.

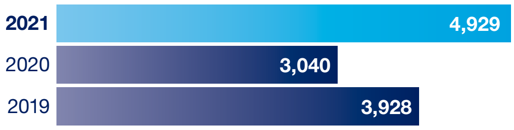
Brand net promoter score (NPS)[(1)(2)]

All of our efforts are focused on helping customers live sustainably, simply and affordably. Following the big impact of COVID-19 on call times in 2020, our aggregated NPS improved by 4.3 points despite the pandemic's continued impact alongside challenges arising from industrial action and reduced engineer capacity.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Complaints[(1)(3)]



We strive to provide an excellent service that satisfies our customers and reduces complaints. However, with reduced appointment availability and higher levels of job rescheduling as a result of challenges faced during the year in British Gas Services and Solutions (see left), customer complaints per 100,000 customers increased by 62%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Process safety incident frequency rate (Tier 1 and 2)[(1)]

Process safety enables us to prevent potential incidents where we source, generate and store energy. With three Tier 2 events occurring compared to zero the previous year, our incident frequency rate per 200,000 hours increased.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Total recordable injury frequency rate (TRIFR)[(1)]

We want to keep our people safe so having a strong safety culture, remains a core foundation. Largely due to the adverse impact of COVID-19 and organisational restructuring on working hours, our TRIFR per 200,000 hours worsened by 3%.

Link to Remuneration
Long-term incentive

Link to Group Priorities

Colleague engagement[(1)(4)]

Our success is reliant on having a motivated and engaged team. Following the completion of business restructuring alongside action to create a more inclusive and supportive workplace, our engagement score improved by 14% to 55% favourable.

Link to Remuneration
Long-term incentive

Link to Group Priorities

The KPI performance outcome associated with executive remuneration is set out on page 76.

(1) Excludes Direct Energy which is now classified as a discontinued operation. Data relating to historical engagement scores may therefore differ elsewhere in the report.
(2) Aggregated scores across across British Gas, Hive and Bord Gáis Energy weighted by customer numbers. This differs to some of the NPS KPIs in the Business Review due to measurement evolving since the remuneration policy was set.
(3) Aggregated scores across British Gas Energy, British Gas Services and Solutions, Bord Gáis Energy and Centrica Business Solutions weighted by customer accounts.
(4) Measured through colleague responses to a survey asking them to rate their level of advocacy, pride, loyalty and satisfaction. The survey moved from annual to quarterly in 2021.

Read more about our Group Priorities on Page 11

Read more about our non-financial performance on Pages 28 to 37 and 242 to 244

Group Chief Financial Officer's Report

"Our 2021 financial performance was resilient against a backdrop of high and volatile commodity prices. Adjusted earnings and free cash flow were both up, helped by our continued focus on cost and capital discipline, while the actions we have taken over the past two years mean the balance sheet is in a much stronger position. Against a continuing challenging external backdrop, our focus remains on managing the company through the current energy crisis while maintaining balance sheet strength and driving cash flow growth across the Group to add value for shareholders."

Kate Ringrose
Group Chief Financial Officer

Revenue

Group statutory revenue from continuing operations increased by 20% to £14.7bn (2020: £12.2bn). Group revenue from continuing operations included in business performance increased by 23% to £18.3bn (2020: £14.9bn).

Gross segment revenue from continuing operations, which includes revenue generated from the sale of products and services between segments, increased by 30% to £20.5bn (2020: £15.7bn). This was driven largely by the impact of higher wholesale commodity prices on Energy Marketing & Trading and Upstream, and the impact of higher wholesale prices on retail tariffs in British Gas Energy, Bord Gáis Energy and Centrica Business Solutions.

A table reconciling different revenue measures is shown in the table below:

		2021			2020 (restated		
Year ended 31 December	Notes	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Continuing operations							
British Gas Services & Solutions		**1,513**	**(53)**	**1,460**	1,547	(64)	1,483
British Gas Energy		**7,513**	**–**	**7,513**	7,007	–	7,007
Centrica Business Solutions		**1,981**	**(28)**	**1,953**	1,526	(8)	1,518
Bord Gáis Energy		**1,111**	**–**	**1,111**	820	–	820
Energy Marketing & Trading		**6,082**	**(214)**	**5,868**	2,917	(175)	2,742
Upstream		**2,282**	**(1,887)**	**395**	1,918	(539)	1,379
Group revenue included in business performance		**20,482**	**(2,182)**	**18,300**	15,735	(786)	14,949
Discontinuing operations							
Direct Energy		**–**	**–**	**–**	9,483	–	9,483
Business performance revenue arising from continuing and discontinued operations		**20,482**	**(2,182)**	**18,300**	25,218	(786)	24,432
Less: revenue arising on contracts in scope of IFRS 9 included in business performance				**(3,556)**			(2,700)
Less: Discontinued operations				**–**			(9,483)
Group statutory revenue				**14,744**			12,249

Segmental revenues have been restated to reflect the new operating structure of the Group. As a result of the change in segments, gross segment revenue has been restated to reflect the updated inter-segment trading.

Operating profit/(loss)

Adjusted operating profit from continuing operations increased by 112% to £948m (2020: £447m). The statutory operating profit from continuing operations was £954m (2020: loss of £362m). The difference between the two measures of profit relates to exceptional items and certain remeasurements. A table reconciling the different profit measures is shown below:

Year ended 31 December	Notes	2021 Business performance £m	2021 Exceptional items and certain re-measurements £m	2021 Statutory result £m	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Statutory result £m
Continuing operations							
British Gas Services & Solutions		121			191		
British Gas Energy		118			82		
Centrica Business Solutions		(52)			(132)		
Bord Gáis Energy		28			42		
Energy Marketing & Trading		70			174		
Core EM&T		*155*			*232*		
Legacy gas contract		*(85)*			*(58)*		
Upstream		663			90		
Spirit Energy		*624*			*84*		
CSL		*77*			*23*		
Nuclear		*(38)*			*(17)*		
Group operating profit/(loss)	5(c)	948	6	954	447	(809)	(362)
Net finance cost	7	(187)	–	(187)	(215)	–	(215)
Taxation	8	(454)	236	(218)	(42)	187	145
Profit/(loss) from continuing operations		307	242	549	190	(622)	(432)
Profit attributable to non-controlling interests		(70)	107	37	(25)	183	158
Adjusted earnings from continuing operations		237	349	586	165	(439)	(274)
Discontinued operations		–	624	624	213	102	315
Adjusted earnings attributable to shareholders		237	973	1,210	378	(337)	41

Group operating profit from business performance (adjusted operating profit)

The combined net negative impact of COVID-19 across the Group and the industrial action in British Gas Services & Solutions was estimated at approximately £60m in 2021. This compares to an estimated net negative impact of £110m in 2020 which included a number of mitigating actions not repeated in 2021, including use of the UK Government's Coronavirus Job Retention Scheme and the decision not to pay senior management bonuses relating to 2019 performance, resulting in the release of an accrual in 2020.

Colder than normal weather in H1 had a positive effect on British Gas Energy and the other supply businesses, partially offset by the impact of buying incremental gas and power volumes at higher prices, and higher balancing costs. The significant increase in wholesale commodity prices in H2 meant that warmer than normal weather in H2 also had a positive effect, with the Group able to sell back gas and power it had already bought as part of its hedging approach at higher than the price at which it was purchased. The combined positive impact year-on-year was estimated at £95m.

Excluding the impacts of weather, the high commodity price environment had a negative impact in British Gas Energy, as existing customers were incentivised to switch to, or remain on, the capped default tariff. Two-year small business contracts were less profitable in 2021, as commodity prices in the year were above the two-year averages used to price the contracts. This will even out across the contracts' remaining duration. The business also bore a share of the mutualised costs of failed suppliers' Renewables Obligation Certificates (ROCs). The total negative impact of these factors was estimated at approximately £75m.

The benefit of cost efficiencies was seen across the Group. However, these were more than offset by higher ECO costs in British Gas Energy, an outage at the Whitegate gas-fired power station in Ireland, margin pressures in British Gas Services & Solutions arising from customer losses and a changed product mix towards lower-priced products and no repeat of an exceptionally strong LNG performance in Energy Marketing & Trading from 2020.

Upstream adjusted operating profit increased by £573m, with the impact of higher gas, oil and power prices more than offsetting the impact of lower gas and oil production and nuclear generation.

More detail on specific business unit adjusted operating profit performance is provided in the Business Review on pages 23 to 25.

Group finance charge and taxation

Finance costs

Net finance costs for continuing operations decreased to £187m (2020: £215m), with a reduced interest costs on bonds, bank loans and overdrafts reflecting our decision to redeem the €750m hybrid bond at its first call date of April 2021.

Taxation

Business performance taxation on profit from continuing operations increased to £454m (2020: £42m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £433m (2020: £67m).

The resultant adjusted effective tax rate for the Group was 59% (2020: 26%), with a significant change in the profit mix towards more highly taxed E&P activities partly offset by the impact of a £22m one-off increase in net deferred tax assets in respect of decommissioning liabilities.

The adjusted effective tax rate calculation is shown below:

Year ended 31 December	2021 £m	2020 £m
Adjusted operating profit from continuing operations before impacts of taxation	**948**	447
Add: JV/associate taxation included in adjusted operating profit	**(21)**	25
Net finance cost from continuing operations	**(187)**	(215)
Adjusted profit before taxation	**740**	257
Taxation on profit from continuing operations	**(454)**	(42)
Share of JV/associate taxation	**21**	(25)
Adjusted tax charge	**433**	67
Adjusted effective tax rate	**59%**	26%

Exceptional items and certain re-measurements

The significant increase in forecast commodity prices has led to large but broadly offsetting certain re-measurements and exceptional items from continuing operations.

Total certain re-measurements and exceptional items from continuing operations generated a pre-tax profit of £6m (2020: loss of £809m), made up of a pre-tax loss on certain re-measurements of £1,241m (2020: gain of £784m) and an exceptional pre-tax credit of £1,247m (2020: charge of £1,593m). Total certain re-measurements and exceptional items and from continuing operations generated a tax credit of £236m (2020: £187m), with a credit of £486m (2020: charge of £86m) related to certain-remeasurements and a charge of £250m (2020: credit of £273m) related to exceptional items.

Certain re-measurements

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9.

The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued.

As a result of the significant commodity price movements, the Group has also had to recognise an onerous provision in 2021 for its UK downstream energy supply contract portfolio. Although gains on the commodity derivative hedge trades are already separately recognised in the income statement, the Group must assess whether downstream customer contracts have become onerous taking into account the reversal of these mark to market gains. Movement in the amount provided has also been recognised in certain re-measurements, as the supply contracts are economically related to both the hedges and forecast future profitability of supply and therefore do not reflect underlying performance.

The operating profit in the statutory results includes a net pre-tax loss for continuing operations of £1,241m (2020: gain of £784m) relating to re-measurements, comprising:

- A net gain of £1,289m on the re-measurement of derivative energy contracts. With the Group generally a net purchaser of commodity, the gain was predominantly due to the positive revaluation of UK downstream energy supply contract hedge purchases due for delivery in future periods as commodity prices rose over 2021, less the unwind of their in-the-money positions from December 2020 (totalling £3,917m). This was offset by the negative revaluation predominantly from the Upstream and Energy, Marketing and Trading sell trades due for delivery in future periods, plus the unwind of their out-the-money positions from December 2020 (totalling £2,628m).
- An onerous energy supply contract provision charge of £2,530m. Although the Group has purchased the commodity required for future supply in advance, without these hedges the future costs of fulfilling downstream customer contracts would exceed the fixed/capped charges recovered from customers, due to commodity price increases in 2021. The gain from releasing this provision will offset losses from the unwinding of in-the-money hedge positions, without affecting the ultimate profitability of the underlying transactions.

These re-measurements generated a taxation credit of £486m (2020: charge of £86m). As a result, the total loss from net re-measurements after taxation for continuing operations was £755m (2020: profit of £698m).

The Group recognises the realised gains and losses on commodity derivative and onerous supply contracts when the underlying transaction occurs. The business performance profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

Further details can be found in note 7(a).

Exceptional items

An exceptional pre-tax credit of £1,247m was included within the statutory Group operating profit from continuing operations in 2021 (2020: charge of £1,593m) including:

- A credit of £747m relating to the write-back of the Group's nuclear investment, predominantly due to an increase in near-term liquid commodity prices, partially offset by reduced output assumptions following generation issues at a number of plants during the year. Due to current forecast baseload prices being higher in the near-term, coupled with the requirement for the nuclear fleet depreciation to be calculated on a production/time basis rather than economic value, there is a higher likelihood of an impairment being required in 2022.
- A credit totalling £838m relating to the write-back of E&P assets, of which £774m related to Spirit Energy and £55m related to CSL. This was predominantly due to the increase in near-term liquid commodity prices. It also includes a net credit of £40m due to a reduction in decommissioning provisions related to assets previously impaired through exceptional impairments, and a £31m charge related to the farm down of the Pegasus field and an update to the loss on disposal from the prior year Danish gas and oil asset disposal.
- A charge of £244m related to the Spirit Energy Norwegian E&P and Statfjord disposal and the consequent strategic decision to focus the remaining Spirit Energy business on retained producing fields rather than exploration and evaluation. This included a goodwill impairment of £198m and a write-off of the remaining exploration and evaluation assets of £33m, with the remaining £13m related to an onerous provision for exploration spend and costs incurred for professional assistance relating to the divestment.
- A charge of £123m connected to an impairment of Goodwill and specific assets in Centrica Business Solutions, as the business narrowed its geographical footprint and product offerings following a change in strategic direction.
- A credit of £15m from a fair value uplift on a historic minority investment made by Centrica Innovations in Driivz, which is subject to a signed disposal agreement at the year-end.
- A credit of £14m relating to the reversal of a portion of 2020 restructuring charges relating to pension strain estimates, partially offset by run off costs from the Group's restructuring programme. As stated in the 2020 Preliminary Results, there will be no further material exceptional charge relating to the Group's restructuring programme which was planned to result in £2bn of annualised efficiencies between 2015-22 and has resulted in £1.2bn of exceptional restructuring costs since 2015.

These generated a taxation charge of £250m (2020: credit of £273m), including a £101m credit associated with deferred tax provisions related to E&P tax losses and decommissioning carry-back, due to the increase in forecast prices. As a result, the total post-tax exceptional profit recognised in continuing operations after taxation was £997m (2020: charge of £1,320m).

Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 7(b) and 7(c).

Discontinued operations

The sale of Direct Energy was announced on 24 July 2020 and completed on 5 January 2021. As such its activities are treated as a discontinued operation in the financial results.

There was no adjusted operating profit or adjusted earnings from discontinued operations in 2021. Statutory earnings of £624m from discontinued operations are entirely related to the profit on disposal and release of a tax provision related to the disposal of Direct Energy.

Group earnings

Adjusted earnings

Profit for the year from business performance from continuing operations after taxation was £307m (2020: £190m). After adjusting for non-controlling interests relating to Spirit Energy, adjusted earnings were £237m (2020: £165m).

Adjusted basic EPS from continuing operations was 4.1p (2020: 2.8p).

Statutory earnings

After including exceptional items, certain re-measurements and earnings from discontinued operations, the statutory profit attributable to shareholders for the period was £1,210m (2020: £41m).

The Group reported a statutory basic EPS of 20.7p (2020: 0.7p). The statutory basic EPS from continuing operations was 10.0p (2020: loss of 4.7p).

Dividend

The Group is proposing no 2021 final dividend having also paid no 2021 interim dividend.

Group cash flow, net debt and balance sheet

Group cash flow

Free cash flow is the Group's primary measure of cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow is reconciled to statutory net cash flow from operating and investing activities in the table below. See the explanatory note in note 4(f) for further details.

Year ended 31 December	2021 £m	2020 £m
Statutory cash flow from operating activities	**1,611**	957
Statutory cash flow from investing activities	**(325)**	(263)
Statutory cash flow from continuing operating and investing activities	**1,286**	694
Add back/(deduct):		
Sale and settlement of securities	**3**	(121)
Interest received	**(2)**	(7)
Movements in collateral and margin cash included in net debt	**(481)**	(56)
Defined benefit pension deficit payment	**368**	175
Free cash flow from continuing operations	**1,174**	685
Discontinued operations free cash flow	**2,588**	376
Free cash flow	**3,762**	1,061

Net cash flow from continuing operating activities of £1,611m was up 68% (2020: £957m), reflecting higher EBITDA and margin cash inflows, partly offset by higher pension and tax payments.

Net cash outflow from continuing investing activities increased to £325m (2020: £263m), largely due to a cash inflow from the maturity in 2020 of a gilt investment not recurring.

Group total free cash flow from continuing operations was £1,174m (2020: £685m). When including £2,588m of free cash flow from discontinuing operations which relates to the proceeds from the sale of Direct Energy on 5 January 2021, Group free cash flow was £3,762m (2020: £1,061m).

Net cash outflow from continuing financing activities increased to £938m in 2021 (2020: £466m) reflecting the repayment of the hybrid bond in April 2021.

Net debt/cash

The above resulted in a £2,936m increase in cash and cash equivalents over the year, and when including the impact of reduced gross debt resulting from the hybrid bond repayment, non-cash movements and exchange adjustments, the Group's net cash position at the end of December 2021 was £680m, compared to net debt of £2,998m on 31 December 2020 (restated to remove the adjustment for collateral posted/received, in order to better align to external net debt definitions).

Further details on the Group's sources of finance and net debt are included in note 24.

Pension deficit

The Group had an IAS 19 net pension deficit of £nil at the year-end, compared to a net deficit of £601m on 31 December 2020, due to deficit contributions made during the year and the effect of rising interest rates leading to an increase in the discount rate and decreasing obligations.

Further details on the post-retirement benefits are included in note 22.

Balance sheet

Net assets increased to £2,750m (2020: £1,382m). This reflects the impact of the statutory profit in the year, in particular the write-back of impairments related to Upstream assets, and the decrease in net retirement benefit obligations.

The higher commodity price environment also resulted in a significant increase in trade and other receivables, with a higher level of accrued income in the energy supply businesses and cash collateral posted relating to upstream activities, and derivative financial instrument assets which are used to manage the risk largely arising from fluctuations in the value of assets associated with energy sales and procurement and trading. However, it also resulted in a broadly similar increase in trade and other payables, with a higher level of accrued cost related to future commodity payments and cash collateral received due to downstream activities, and derivative financial instrument liabilities which are used to manage the risk largely arising from fluctuations in the value of liabilities associated with energy sales and procurement and trading.

2021 Acquisitions, disposals and disposal groups classified as held for sale

On 24 July 2020, the Group announced it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of $3.6 billion (approximately £2.7bn) on a debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021. This resulted in a profit on disposal of £0.6bn in 2021.

On 8 December 2021, the Group announced that the Spirit Energy Group, of which the Group owns 69%, had agreed to dispose of its Norwegian oil and gas exploration and production business (excluding interests in the Statfjord field) to Sval Energi, and to dispose of its UK and Norwegian interests in the Statfjord field to Equinor, with a commercial effective date of 1 January 2021. Headline consideration for the transactions was $1,076m (approximately £800m) on a debt-free cash-free basis (which will be reduced for the net post-tax cash flows generated by the sale business and interests after the commercial effective date, less any remaining tax payable on these cash flows), plus a deferred commodity price-linked contingent payment. Spirit Energy will distribute the net cash flow and net consideration to Centrica and its joint venture partners in proportion to their ownership. The transaction was approved by Centrica shareholders at a General Meeting on 13 January 2022.

Further details on assets purchased, acquisitions and disposals are included in notes 4(e) and 12.

Events after balance sheet date

Details of events after the balance sheet date are described in note 26.

Risks and capital management

The nature of the Group's principal risks and uncertainties are broadly unchanged from those set out in its 2020 Annual Report, with Climate Change now added as a Principal Risk to ensure it receives appropriate focus. Per the 2021 Annual Report, our top three Principal Risks are Commodity Risk, Weather Risk and Asset Production.

The Group has also actively responded to those risks heightened by the record levels of global wholesale energy prices. Centrica's approach to risk management has enabled the implementation of agile hedging policies and effective demand forecasting processes. The extent to which the Group may continue to be impacted by the consequences of the current high level of commodity prices, including the onboarding of around 700,000 customers through the SoLR process since the start of 2021 to date, will in part depend on government and regulatory policy, including the setting of future levels of default tariff caps, which could also be a factor in the level of customer bad debt we see.

Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3. Details of the Group's capital management processes are provided under sources of finance in note 24(a).

Accounting policies

The Group's accounting policies and specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Our view on taxation

The Group takes its obligations to pay and collect the correct amount of tax very seriously.

Responsibility for tax governance and strategy lies with the Group Chief Financial Officer, overseen by the Board and the Audit and Risk Committee.

Our approach

Wherever we do business in the world, we take great care to ensure we fully comply with all our obligations to pay or collect taxes and to meet local reporting requirements.

We are committed to providing disclosures and information necessary to assist understanding beyond that required by law and regulation.

We do not tolerate tax evasion or fraud by our employees or other parties associated with Centrica. If we become aware of any such wrongdoing, we take appropriate action.

Our cross-border pricing reflects the underlying commercial reality of our business.

We ensure that income and costs, including costs of financing operations, are appropriately recognised on a fair and sustainable basis across all countries where the Group has a business presence. We understand that this is not an exact science and we engage openly with tax authorities to explain our approach.

In the UK we maintain a transparent and constructive relationship with Her Majesty's Revenue & Customs (HMRC). This includes regular, open dialogue on issues of significance to HMRC and Centrica. Our relationship with fiscal authorities in other countries where we do business is conducted on the same principles.

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost.

We do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

We seek to actively engage in consultation with governments on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

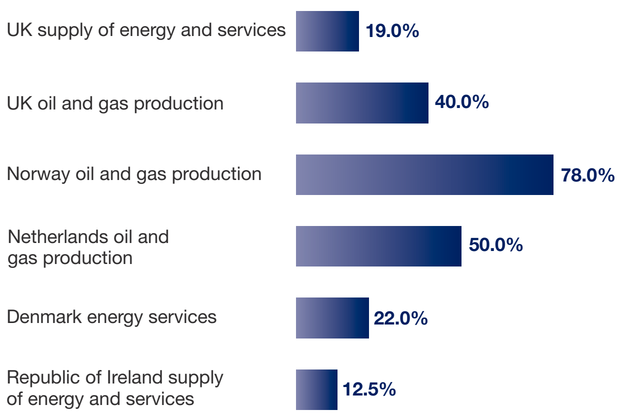
The Group's tax charge, taxes paid and the UK tax charge

The Group's businesses are subject to corporate income tax rates as set out in the statutory tax rates on profits table.

The overall tax charge is dependent on the mix of profits and the tax rate to which those profits are subject.

Statutory tax rates on profits

Group activities



Tax charge compared to cash tax paid

	Current tax charge/(credit)	Cash tax paid/ (received)
UK (including Petroleum Revenue Tax)	30	55
Norway	358	35
Denmark	18	12
Ireland	24	35
Singapore	0	3
Discontinued activities	(10)	9
	420	**149**

Further information on the charges is reported on pages 140 to 142.

Further information on the tax charge is set out in note 9 on Pages 140 to 142

Our Group Tax Strategy, a more detailed explanation of the way the Group's tax liability is calculated and the timing of cash payments, is provided on our website at centrica.com/responsibletax

Business Review

British Gas Services & Solutions negatively impacted by external factors and industrial action

British Gas Services & Solutions	2021	2020	Change
Services customers ('000) (closing)[1]	**3,428**	3,563	(4%)
Install and on-demand jobs ('000)	**282**	283	(0%)
Services complaints per customer (%)[2]	**12.1%**	5.7%	6.4ppt
Services Engineer NPS[3]	**60**	66	(6pt)
Revenue per services customer (£)	**361**	359	1%
Cost per services customer (£)	**338**	299	13%
Adjusted operating profit (£m)	**121**	191	(37%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) Services customers are defined as single households having a contract with British Gas.

(2) Total complaints, measured as any oral or written expression of dissatisfaction as a percentage of average customers over the year.

(3) Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following an engineer visit.

Customer retention increased by 1ppt to 82% in 2021, although British Gas Services customers fell by 135,000, or 4%, reflecting reduced sales opportunity. The number of services products per customer improved slightly to 2.23 from 2.22 at the start of the year.

- Customer numbers fell by 144,000 in the first half, as proactive selling and marketing were reduced in Q1 due to the impacts of industrial action and COVID-19.
- Customer numbers increased by 9,000 in the second half, despite the impact of significantly reduced activity on energy supply switching sites, reflecting our decision in Q4 to offer free services to 86,000 targeted energy customers to aid retention.

The total number of installs and on-demand jobs for the year was broadly flat compared to 2020. Boiler installations were up 15%, with the impact of fewer COVID-19 related restrictions more than offsetting supply chain issues affecting boiler availability towards the end of the year. The number of on-demand jobs fell, as we prioritised serving contract customers during periods of constrained capacity.

Service levels were impacted by COVID-19 related absence rates, industrial action and reduced engineer capacity over the year, with reduced appointment availability and higher levels of job rescheduling than in 2020. As a result, customer complaints more than doubled and engineer NPS reduced by 6 points to +60. Customer service improvement is a key focus for 2022.

Revenue per services customer increased by 1% to £361. However, cost per services customer increased by 13% to £338 despite benefits from cost efficiencies, due to additional costs related to COVID-19 and industrial action, increased contractor rates, higher cost of materials and an increased proportion of higher-value boiler installation workload.

British Gas Services & Solutions adjusted operating profit fell by 37% to £121m.

- This reflects a £50m negative impact from the combination of COVID-19 and industrial action in H1 2021, which resulted in additional costs due to the increased use of third-party labour and refunds to some customers for annual service visits not completed. This was broadly similar to the COVID-19 impact in 2020, which also included around £25m of mitigating actions including use of the Government's Coronavirus Job Retention Scheme.
- It also includes the impact of continued higher COVID-19 related absence rates in H2 2021 resulting in a higher number of jobs completed by contractors than in 2020, inflationary pressures on contractor rates and materials and supply chain issues impacting boiler installations. These factors combined negatively impacted us by approximately £25m compared to 2020.
- We were also impacted by lower customer numbers and a change in product mix towards lower-priced products. These negative impacts were partly offset by cost efficiency benefits and lower depreciation following the decision to write down some Home Solutions IT assets at the end of 2020.

Robust British Gas Energy performance against a backdrop of high and volatile prices

British Gas Energy	2021	2020	Change
Residential energy customers ('000) (closing)[1]	**7,260**	6,916	5%
Small business customer sites ('000) (closing)[2]	**455**	450	1%
Energy complaints per customer (%)[3]	**8.5%**	6.1%	2.4ppt
Energy Touchpoint NPS[4]	**14**	9	5pt
Cost per energy customer (£)[5]	**93**	102	(9%)
Adjusted operating profit (£m)	**118**	82	44%

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

1. Residential energy customers are defined as unique households buying energy from British Gas.
2. 2020 restated to reflect the number of small business customers moved across to British Gas Energy.
3. Total complaints, measured as an expression of dissatisfaction in line with submissions made to Ofgem, as a percentage of average customers over the year.
4. Measured independently, through individual questionnaires, the customer's willingness to recommend British Gas following contact.
5. 2020 restated to reflect the transfer of smart metering to British Gas Services & Solutions

British Gas Energy residential customer numbers increased by 344,000, or 5%, over 2021.

- The first half saw a fall of 114,000 customers, with a significant increase in default tariff price caps resulting in increased levels of market switching across March and April. In addition, the price comparison website market remained fiercely competitive, with some competitors continuing to price at negative gross margins, and as a result we reduced our activity through this channel. This reduction in customer numbers was partially offset by the impact of taking over supply for 53,000 customers from Simplicity Energy through Ofgem's Supplier of Last Resort (SoLR) process and the acquisition of 36,000 customers from Nabuh Energy.
- In the second half, we added 504,000 customers through the SoLR process as a number of competitors ceased trading. Including the impact of a small underlying decline in Q3, total customer numbers overall increased by 458,000.

As of H1 2021, British Gas Energy also serves all of our small business customers, with their profile closely matching those of households. These customers were previously in Centrica Business Solutions. The number of small business customers increased by 1% in 2021.

Energy Touchpoint NPS increased by 5 points to 14 over the year as our new operating model led to improved colleague empowerment and an improved focus on resolving customer issues first time.

Call volumes and complaints increased, following a fall in 2020 during the first phase of the COVID-19 pandemic when we had encouraged customers to interact with us online so we could prioritise calls from more vulnerable customers. The onboarding of SoLR customers also increased operational pressures, while customer concerns over high energy prices impacted call volumes. This impact is likely to continue into 2022.

Cost per customer reduced by £9 to £93, despite a £4 per customer impact from the dual running of IT systems. This reduction predominantly reflects lower overhead costs resulting from the significant Group restructure and a lower bad debt charge.

British Gas Energy adjusted operating profit increased by 44% to £118m.

- This includes the impact of weather, with colder than normal temperatures in H1 2021 resulting in higher energy consumption compared to a warm H1 2020, and warmer than normal temperatures in Q4 allowing a small portion of surplus gas and power to be sold back into a high-priced commodity market.
- These positive impacts were broadly offset by additional costs associated with the commodity environment and the number of supplier failures, including additional balancing costs and the mutualisation of Renewable Obligation Certificate (ROC) costs across the industry. The rise in wholesale prices has also meant that default tariffs have become cheaper than fixed-price tariffs, resulting in an increasing number of customers moving onto default tariffs and requiring us to purchase more commodity from the market. In addition, current prices are higher than forward prices, resulting in a shift in profit towards the back end of fixed-term tariffs.
- We also saw the benefit of cost efficiencies, plus reduced COVID-19 impacts which include a return to historic levels of bad debt provisioning and additional bad debt allowances in the price cap, worth approximately £30m in the year.
- These benefits were largely offset by higher Energy Company Obligation (ECO) costs, the impacts of running two IT systems, and lower underlying consumption.

COVID-19 recovery in Centrica Business Solutions and growth in services order intake

Centrica Business Solutions	2021	2020	Change
Energy supply total gas and electricity volume (TWh)[1]	22.3	19.5	14%
Energy supply complaints per customer (%)[2]	2.1%	2.1%	0.0ppt
Energy supply Touchpoint NPS[3]	21	nm	nm
New Energy Services order intake (£m)	490	350	40%
New Energy Services order book (£m)	820	697	18%
Adjusted operating (loss) (£m)	(52)	(132)	(61%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) 2020 restated to reflect the transfer of small business customers to from Centrica Business Solutions to British Gas Energy

(2) Total complaints, measured as any oral or written expression of dissatisfaction, as a percentage of average customers over the year.

(3) Measured independently, through individual questionnaires and the customer's willingness to recommend. This was measured by CBS for the first time in 2021 to align to British Gas Energy methodology, therefore no comparative data is available for 2020

In Centrica Business Solutions energy supply, which consists of medium-sized entities and Commercial and Industrial (C&I) customers:

- The total amount of energy supplied in the period was 14% higher than in 2020, reflecting a combination of recovery in energy demand due to the reduced impact of COVID-19 restrictions, and underlying volume growth.
- Customer complaints were stable while Touchpoint NPS was positive at +21.

In Centrica Business Solutions New Energy Services:

- Order intake of £490m was 40% higher than in 2020, with reduced Brexit uncertainty and fewer COVID-19 restrictions. The order book of £820m was £123m higher than at the end of 2020.

Centrica Business Solutions reported a reduced adjusted operating loss of £52m (2020: loss of £132m).

- Business energy supply reported an adjusted operating profit of £1m (2020: loss of £47m), with no repeat of having to sell back excess commodity volumes at a loss due to COVID-19 related demand reductions, a lower bad debt charge and efficiency benefits. These benefits were partially offset by impacts of the increase in wholesale commodity prices and higher ROC mutualisation costs driven by supplier failures.
- New Energy Services reported a reduced adjusted operating loss of £53m (2020: loss of £85m), reflecting growth in revenue and gross margin, in particular from increased asset optimisation activity. 2020 also included a £16m provision related to US solar liabilities previously in Direct Energy with no additional provision made in 2021.

Solid performance from Bord Gáis Energy; financial result impacted by Whitegate outage

Bord Gáis Energy	2021	2020	Change
Customers ('000) (closing)[1]	509	513	(1%)
Complaints per customer (%)[2]	1.6%	1.8%	(0.2ppt)
Journey NPS[3]	30	38	(8pt)
Adjusted operating profit (£m)	28	42	(33%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

(1) 2020 closing customer numbers have been restated, to reflect the methodology used in other customer-facing business units.

(2) Total complaints, measured as any oral or written expression of dissatisfaction. as a percentage of average customers over the year.

(3) Weighted NPS for the main customer interaction channels.

The number of Bord Gáis Energy customers fell by 4,000 in 2021 in a competitive pricing environment. However, products per customer increased and the number of accounts was broadly stable.

Customer complaints fell slightly, although Journey NPS fell by 8 points over the year, reflecting continued operational challenges caused by COVID-19 and broader customer concerns as retail tariffs increased in a price-sensitive market.

The Whitegate CCGT was out of service for most of the year having gone offline in late 2020, with Bord Gáis capital expenditure £37m higher than 2020 as a result. The plant came back online in December 2021.

Bord Gáis Energy adjusted operating profit reduced by 33% to £28m. This reflects the impact of the Whitegate power station outage, which was partly offset by a strong trading performance, the impacts of weather and an improved result in the B2B segment due to reduced COVID-19 restrictions.

Higher legacy gas contract losses and lower LNG contribution in Energy Marketing & Trading

Energy Marketing & Trading (EM&T)	2021	2020	Change
Renewable capacity under management (GW)	**11.7**	10.7	9%
Total EM&T adjusted operating profit (£m)	**70**	174	(60%)

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December unless otherwise stated.

Our core EM&T trading and optimisation activities performed well in the second half of the year, particularly in the fourth quarter during periods of high commodity volatility. This followed a first half where volatile and unpredictable commodity markets had created a challenging environment.

EM&T renewable route-to-market capacity under management increased by 1.0GW to 11.7GW, with the Moray East offshore windfarm in Scotland coming online. Adding to our route-to-market capacity continues to be a focus area for growth as more renewable capacity comes online across Europe.

Losses from the remaining legacy gas contract relating to the Sole Pit gas field, which runs until 2025, increased by £27m to £85m, within the previously guided range for losses from the contract of £50m-£100m.

We also saw a reduced profit from LNG activities, following particularly strong optimisation performance in 2020.

EM&T adjusted operating profit fell to £70m (2020: £174m), reflecting the lower profit from LNG activities and the increased loss on the legacy gas contract. These factors were partially offset by the impact of the strong trading and optimisation result in the second half.

Impact of lower volumes more than offset by higher achieved prices in Upstream

Upstream	2021	2020	Change
E&P total production volumes (mmboe)	**39.7**	48.7	(18%)
Nuclear power generated (GWh)	**8,342**	9,134	(9%)
Adjusted operating profit (£m)	**663**	90	637%

All 2021 metrics and 2020 comparators are for the 12 months ended 31 December.

Total E&P production was down 18% to 39.7mmboe.

- Spirit Energy volumes fell 18% to 36.8mmboe, reflecting natural decline in the portfolio and production issues at a number of fields in H1 2021. This is in line with the guidance given in the Interim Results that production would be 15-20% lower than in 2020. 51% of 2021 production was from the Norway and Statfjord UK assets, currently held for sale; these assets generated 89% of Spirit Energy's 2021 adjusted operating profit.
- Production volumes from CSL's Rough field fell by 26% to 2.9mmboe, reflecting the natural decline in the late-life field and a 19 day unplanned outage at the Easington Terminal in Q4.

Centrica's share of nuclear generation volumes of 8.3TWh was 9% lower than in 2020, reflecting a number of outages across the fleet.

Having been offline since 2018, it was announced in June 2021 that the de-fuelling process would commence immediately at Dungeness B, while Hunterston B entered de-fuelling in January 2022 and Hinkley Point B will follow no later than July 2022. This is expected to result in reduced operating costs for the Nuclear business in 2022.

Upstream adjusted operating profit increased to £663m (2020: £90m).

- Spirit Energy adjusted operating profit increased from £84m to £624m, with the effect of higher wholesale commodity prices flowing through to achieved oil and gas prices. This more than offset the impacts of lower production volumes, an increase in cash lifting costs and higher depreciation rates following impairment write-backs at half year.
- CSL adjusted operating profit was £77m (2020: £23m) with the higher wholesale prices more than offsetting the impact of lower production volumes.
- Nuclear reported an adjusted operating loss of £38m (2020: £17m), reflecting the lower generation volumes, and a reduction in the achieved price versus 2020 as unplanned outages resulted in us having to buy power from the market to fulfil hedge obligations.

E&P free cash flow increased 362% to £786m (2020: £170m), with higher achieved prices resulting in increased EBITDA and lower capital expenditure reflecting continued capital discipline.

Chief People Officer's Report

"Centrica has created progressive and positive ways of working that enable our people to flourish."

Jill Shedden MBE
Chief People Officer

Overview and external winds

In 2021, Centrica reoriented itself towards its people through the strategic lens of colleagues-customers-cash, recognising that our people are central to Centrica's business strategy. Last year we revitalised our collective agreements with our unions, simplifying our contractual landscape. Our unions support over a third of our people, and we are delighted to be forging stronger and more collaborative ways of working to deliver better people and customer outcomes together.

We were very aware of the potentially disruptive people impacts of COVID-19, including impacts on physical health, mental wellbeing, and general working conditions. Since the outbreak we have been regularly speaking with our people, the government, and our regulators. This collaboration has enabled us to change both how and where we work for the better, virtualising the onboarding of almost 3,000 colleagues in 2021 and accelerating our industry-leading 'Flexible First' programme. Centrica has created progressive and positive ways of working that enable our people to flourish.

For our people

Every person that works for Centrica, regardless of seniority, will now receive Centrica shares through participation in our Global Profit Share Award. The value of the award will be based on 2% of our adjusted operating profit, shared amongst all our colleagues and delivered in shares. This new initiative is one of the many ways we are aligning colleague and business incentives.

The everyday experience of working for Centrica is a priority, which is why we have hard-wired colleague experience into Centrica's core performance metrics. Our investment in people insight, like increasing people surveys to quarterly, is enabling us to make better people decisions more quickly.

Sharing the diversity of thinking and leveraging the unique experiences of our people helps our leaders improve. To promote this, last year every senior leader had the opportunity to work with someone from a different part of the business in our reverse mentoring scheme. We combined this with a shadow-board and open-forum 'straight-talking' sessions to create more platforms for our people to make Centrica an exceptional place to work. This is showing in the numbers, as in 2021 our colleague engagment increased by 13 percentage points. Progress against our 'trust in leadership' and 'colleagues believing change will happen' scores are particulary pleasing. We're excited about the further progress we can make here.

Over the past 18 months we have simplified and modernised the terms and conditions across our UK workforce. The changes we needed to make as a business were clear. It was difficult for some of our colleagues and, regrettably, resulted in some colleagues leaving. Overall, whilst difficult, simplifying these terms was the right thing to do for the business. This will enable Centrica to do even more for its people, customers, and shareholders in the longer term.

Our people vision is to prioritise flexibility around what is best for the individual; and this could be at home, in an office, or even outside of core hours. Designed with feedback from more than 5,000 colleagues during a consultation on how we all wanted work together going forward, Flexible First is having a positive impact on our colleagues as well as our business – from boosting colleague wellbeing and engagement, to opening the door for career opportunities that otherwise wouldn't have been possible.

It was refreshing to see that 92% of colleagues say that our Flexible First programme has had a 'positive impact on their work-life balance'. Our industry-leading flexibility programme means Centrica can access talent pools beyond the traditional, delivering access to a greater breadth of talent.

We have taken a good look at how work is done in Centrica through cultural diagnostics. We're using this insight to build the best culture and environment for our people and strategy across each of our businesses. To create this right environment, we are focused on team effectiveness, how we think about performance and career, and strengthening how our teams come together. Everyone in Centrica should understand how important their role is in delivering our strategy.

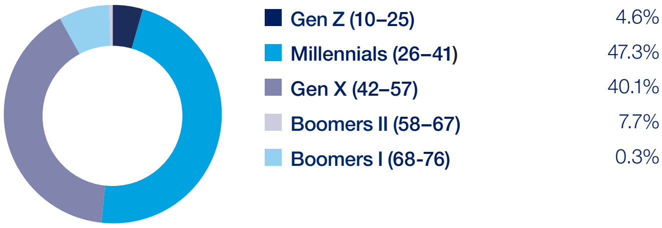
Building our future

Centrica's strategy is enabled by its largest asset – its people. The principles of our people strategy are insight, vision, engagement, creation and optimisation. Centrica is ambitious in its thinking and is creating teams that reflect the diversity of our communities across all levels of our organisation.

Colleague Full Time Equivalent (FTE)

Colleague FTE has reduced year on year, predominantly as a result of the Direct Energy disposal.

Age breakdown by group as at 31 December 2021



Understanding our demographics enables us to tailor the right training, value proposition, and approach based on the individual.

We recruited around 600 new apprentices in 2021, creating new, highly skilled and well-paid British jobs.

By 2030, we expect to recruit 3,500 apprentices, 50% of which will be female and 14% of which will be ethnically diverse. We know that women have traditionally been under-represented in the engineering workforce – and we're working hard to change that. We want to be a leader here.

As we cultivate diversity, developing our talent is a priority. Last year we launched our Group capability framework which defines 15 core capabilities relevant across all roles and is closely aligned with our values, strategy, and purpose. We are equipping people with the training and skills required to fight climate change. In 2021 we launched a fully electric salary sacrifice car lease scheme available to all UK Centrica employees. What's more, colleagues can now even invest in climate aware pension funds, making it easier for our people to make an impact.

As at 31 December 2021, Centrica saw over 500 internal promotions and 100% of our graduate populations receiving promotions into substantive roles after completing the graduate programme. We continued to hire graduates at the same rate, despite a sector recruitment decline of 15%.

Our new Healthcare Plan for all colleagues provides the same level of access to healthcare for every member of the organisation. This supports dependants and pre-existing conditions, giving peace of mind to colleagues and their families. We continue to leverage technology, networks of mental health leaders, and mental health training programmes to support our people. We have also introduced support, education, and guidelines to support colleagues through life-events such as the menopause, fertility treatment and handling caring responsibilities.

92% of colleagues

say that our Flexible First programme has had a 'positive impact on their work-life balance'.

3,500 apprentices

by 2030, 50% of which will be female and 14% of which will be ethnically diverse.

500 internal promotions

in 2021, and 100% of our graduate populations receiving promotions into substantive roles after completing the graduate programme.

People and Planet

2021 has been a challenging year for many and as we look to rebuild from COVID-19 and emerge from years of business transformation, we have a huge opportunity to reshape our future to one that's fairer and protects the environment.

That's why at the start of 2021, we introduced our People & Planet Plan to create a more inclusive and sustainable future that supports communities, our planet and each other. The Plan builds on progress made as part of our outgoing Responsible Business Ambitions and accelerates action through five Group-wide goals that are focused in areas that matter deeply to our business and society, and where we're well-placed to make a world of difference (see framework below).

For example, we:

- Strengthened our people goals to strive for a more engaging and inclusive place to work where every colleague feels supported to be themselves and succeed, whilst backing communities with skills and volunteering opportunities.
- Introduced bolder goals for our planet to fight climate change so that we can support every customer to live more sustainably by providing services and solutions that help them be net zero by 2050 at the latest, as we work to become a net zero business ourselves by 2045 which is five years ahead of the UK target[1].

We then built on our People & Planet Plan later in the year, with the launch of our Climate Transition Plan. The Climate Transition Plan sets out how we intend to achieve our net zero goals and how we'll aim to ensure a fair and affordable transition for everyone.

Through these plans and more, sustainability has gradually shifted to the very heart of our business. This not only helps us deliver our purpose of helping our customers live sustainably, simply and affordably, but it'll also enable us to contribute positively to the United Nations Sustainable Development Goals (SDGs) on key issues like promoting gender equality alongside decent work and economic growth, as well as enabling affordable and clean energy.

Achieving our People & Planet Plan goals will undoubtedly be challenging. Over the next decade, we'll therefore continue to harness the collective expertise of our colleagues and collaborate with key stakeholders such as government, partners and local communities, to further evolve our plans and drive forward the necessary action to deliver the change we all want and need together.

"There's nothing more important than looking after people and planet because without this as a priority, we'll fail our customers and our communities. That's why we've set ambitious goals to drive greater action via our People & Planet Plan, and why we're upping our game to overcome big challenges to achieve them. The path forward won't be easy but we're committed to doing all we can today, to create a more inclusive and sustainable tomorrow."

Chris O'Shea, Group Chief Executive

Read more about our People & Planet Plan, Climate Transition Plan, SDGs and SASB disclosure at centrica.com/peopleandplanet

Read more about our non-financial KPIs on Pages 15, 26 to 27 and 242 to 244

(1) Net zero is the point at which there is a balance between human-related carbon dioxide (CO_2) being emitted into the atmosphere and those taken out.

Our People & Planet Plan

Supporting communities, our planet and each other

People

Supporting every colleague to be themselves to better serve our customers and communities

We want to:

– **Create a more engaged and inclusive team that reflects the full diversity of the communities we serve by 2030***

– **Recruit 3,500 apprentices and provide career development opportunities for under-represented groups by 2030** (1,000 apprentices by the end of 2022)

Planet

Supporting every customer to live more sustainably

We want to:

– **Help our customers be net zero by 2050** (28% carbon intensity reduction by the end of 2030)

– **Be a net zero business by 2045** (40% carbon reduction by the end of 2034)

Inspire colleagues to give 100,000 days to build inclusive communities by 2030 (20,000 days by the end of 2022)

Doing business responsibly
Underpinned by strong foundations to ensure we act fairly and ethically – from customer service to human rights

* All company and senior leaders to reflect 2011 Census data for working populations with 47% women, 14% ethnically diverse, 15% disability, 3% LGBTQ+ and 3% ex-service by 2030 (30% women, 13% ethnically diverse, 4% disability, 3% LGBTQ+ and 3% ex-service by the end of 2022).

People

Supporting every colleague to be themselves to better serve our customers and communities

Goal 1

Key: Progress against goals ▲ On track ▼ Behind

By 2030, we want to:

Create an engaged team that reflects the full diversity of the communities we serve – this means all company and senior leaders to be 47% women, 14% ethnically diverse, 15% disability, 3% LGBTQ+ and 3% ex-service[(1)]

2021 Progress

	All company	Senior leaders[(2)]
Women	28% ▼	28% ▼
Ethnically diverse	12% ▼	9% ▼
Disability	1% ▼	1% ▼
LGBTQ+	2% ▲	1% ▼
Ex-service	2% ▲	2% ▲

(1) Based on 2011 Census data for working populations. Towards this, we're aiming for 30% women, 13% ethnically diverse, 4% disability, 3% LGBTQ+ and 3% ex-service to be achieved by the end of 2022.
(2) Senior leaders include colleagues above general management and spans senior leaders, the Centrica Leadership Team and the Board.

To build a more sustainable future, we need the best team – a diverse mix of people and skills, where different thoughts and ideas can grow, and where everyone feels motivated and able to be their best selves. That's why in 2021, we co-created an action plan with colleagues to help deliver our goals and published our commitments in an open letter. As part of this, we:

- Introduced ambitious goals to ensure we reflect the full diversity of our customers so that we can serve them better (see goal 1). Whilst positive progress has been made in specific areas like achieving gender parity at a Board level and encouraging a significant increase in women entering engineering (see goal 2), it'll take time to overturn the lack of diversity in our business and sector. Consequently, our representation remained broadly flat against our goals in 2021.
- Focused on providing equal access to opportunities which included strengthening recruitment processes with diverse shortlists and interview panels, as well as inspiring more leaders into reverse mentoring to grow the skills of diverse talent.
- Ensured our culture promotes and values difference by creating a 'Shadow Board' of diverse colleagues to meet with leaders and drive colleague-centric decisions, whilst launching ground-breaking guidelines to improve support for those experiencing the menopause, domestic abuse or transitioning at work.

80%

Proportion of colleagues who feel that people of all backgrounds are accepted for who they are at Centrica, which is better than the 78% external benchmark

These goals are ambitious and boosting the representation of women will be particularly challenging given our large field engineering team is traditionally made up of men, but aiming high is the right approach to ensure we deliver the change that's needed. To ensure we get back on track with our goals and respond to the changing world around us, we've again sharpened our focus with the help of colleagues and data insight. Going forwards, we'll do all we can to create a more inclusive environment and attract, promote and retain diverse talent.

We've received external recognition for our efforts to create a truly inclusive culture during 2021-22. This includes a top 20 ranking in the European Women on Boards' Gender Diversity Index, for our promotion of gender equality at the executive and Board level.

Goal 2

By 2030, we want to:	2021 Progress
Recruit 3,500 apprentices and provide career development opportunities for under-represented groups (1,000 apprentices by the end of 2022)[(3)]	**600 apprentices ▲**

(3) Baseline 2021.

To get to net zero we need to create thousands of high-quality green jobs. We believe there's a huge opportunity to tap into the talent of under-represented groups to not only deliver a greener future, but a more inclusive one. Towards this in 2021, we started to recruit 1,000 apprentices over two years against our 2030 goal of 3,500 apprentices – that's equivalent to hiring one apprentice every day over the next decade – with the ambition that 50% will be women. And following a targeted recruitment campaign, we're on track having onboarded 600 apprentices with 30% being women.

With women making up around 4% of our engineers, getting more women into engineering and keeping them is a big challenge. It'll require us to tackle long standing stereotypes around the types of jobs people typically do and it'll need us to think and do things differently – from rolling-out uniforms that are more comfortable for women, to how we run training so that it's more conducive to balancing family life. Once qualified, our apprentices will become Smart Energy Experts that provide smart meters and energy efficiency advice, with opportunities to upskill in other areas like installing heat pumps (see 'Centrica Stories' overleaf).

Alongside this, we're supporting over 650 schools in under-represented areas via Tech We Can, to inspire more young people into a career in energy.

CENTRICA STORIES

Isaura's apprenticeship journey

"Lockdown put the health and fitness industry in limbo and teaching Pilates online just wasn't the same. I've always enjoyed pushing myself to learn new things and be the best I can be, so I started to think more and more about a shift in career. Then I stumbled across an ad to become a British Gas engineer and it looked like the challenge I'd been waiting to take on.

No two days are the same which I love and my fear of failing was never able to manifest; it was British Gas who simply eased me in and supported me one step at a time.

It feels great being able to help customers have a smarter and more efficient home, and I'm proud that my apprenticeship is giving me new skills as well as a solid trade. When I've finished my apprenticeship, I'm excited about the potential to get further qualifications in areas like electric vehicle charging and heat pump installation."

Our wider diversity breakdown

	Gender[1]				Ethnically diverse[1][2]	
	2021		2020		2021	2020
	Female Headcount %	Male Headcount %	Female Headcount %	Male Headcount %	Ethnically diverse Headcount %	Ethnically diverse Headcount %
Board of Directors	**4 (50%)**	**4 (50%)**	4 (44%)	5 (56%)	**1 (13%)**	1 (11%)
Senior executives and direct reports	**29 (32%)**	**61 (68%)**	44 (37%)	75 (63%)	**6 (7%)**	16 (13%)
Senior leaders	**99 (28%)**	**254 (72%)**	164 (28%)	415 (72%)	**31 (9%)**	75 (13%)
All employees	**5,421 (28%)**	**13,832 (72%)**	6,530 (28%)	16,670 (72%)	**2,251 (12%)**	2,987 (13%)

(1) Headcount as at 31 December and based on overall headcount rather than headcount based on their full-time equivalent, to more accurately reflect the full diversity of our workforce. Read more about Board diversity on page 54.
(2) Based on 65% of colleagues in 2020 and 2021, who voluntarily disclosed that they were from a Black, Asian, Mixed/Multiple or other ethnic group across the UK and North America.

Goal 3

Key: Progress against goals ▲ On track ▼ Behind

By 2030, we want to:	2021 Progress
Inspire colleagues to give 100,000 days to build inclusive communities (20,000 days by the end of 2022)[3]	**10,889 days ▼**

(3) Baseline 2019.

We're harnessing the passion of our people to build inclusive communities through volunteering because strong communities are central to a more sustainable future. It's also a great way to help colleagues develop their skills and improve engagement. Following an all-time high of volunteering days in 2020 when we launched our new partnership with the Trussell Trust to meet the urgent demand for food at the outbreak of COVID-19, our volunteering days reduced by 96% in 2021 which brings our cumulative volunteering days to 10,889 since 2019. This was primarily due to the changing nature of COVID-19 restrictions limiting the availability of wider volunteering opportunities as well as our focus on customer service – particularly during the urgent and unprecedented need to support customers during the energy crisis which resulted in us rapidly taking on around 700,000 customers from failed energy suppliers (see page 8).

Colleagues have told us they want to do more to support their local communities in 2022. We've exciting plans to help them use their two-day volunteering allowance, including new opportunities to make a difference at their local Trussell Trust food bank amongst other initiatives. We hope this re-energised approach will help us get back on track with our goal and see us progress towards our ambition of having 1 in 3 colleagues volunteering by 2030.

Overall in 2021, we gave £306 million[4] in mandatory, voluntary and charitable contributions to support customers and communities.

(4) Comprises £305 million in mandatory and £1 million in voluntary contributions and charitable donations.

How we're helping to build more inclusive and sustainable communities

For the last three years, we've worked together to improve the lives of unpaid carers across the UK. And whilst our partnership concluded at the end of 2021, we'll continue to further the cause and advocate for every carer to receive the help they need. Our partnership highlights include:

- £1.5 million donated.
- Over £255,000 fundraised by colleagues.
- Statutory carers leave due to be introduced by the UK Government following our successful joint campaign.

Realising our scale and passion could help the Trussell Trust meet the unprecedented demand for food banks at the start of the pandemic in 2020, we've continued to combine forces to fight food and fuel poverty. So far:

- 2,000 colleagues have been inspired to help their local food bank.
- Over 400 food banks have received our support.
- £125,000 has been donated to help people in hardship, and further the ultimate aim of eliminating the need for food banks.

Funded solely by British Gas, the independent charity plays a key role supporting customers and non-customers alike with their energy bills and household debt. The Trust is one of the largest sources of financial help for vulnerable households outside of Government funding and over the last 17 years, we've enabled:

- Over £130 million in mandatory and voluntary contributions to the Trust.
- More than 500,000 people to benefit from debt advice and grants, with over 88,200 interventions during 2021-22.
- Funding of nearly 50 grassroot charities, empowering over 120 expert advisers to support communities of heightened need.

For over a decade, our impact fund has provided grants and expert advice for community initiatives that deliver affordable and sustainable energy solutions for the UK. With money generated from solar panels we installed at nearly 270 schools, the fund now focuses on regional campaigns targeted to help communities transition to net zero. The fund has:

- £600,000 to spend annually with grants up to £100,000 available.
- Supported more than 20 community initiatives so far, including five new ones in 2021 following our first regional campaign which took place in Scotland during COP26.

Partnered with Focus Ireland for the last six years to help prevent family homelessness and alleviate the distress of homelessness. We've now extended the partnership for another five years to build off progress already made, such as:

- €2.4 million donated.
- Over €200,000 via colleague fundraising.
- More than 7,000 vulnerable families supported, including directly preventing 460 families from becoming homeless.

"The ongoing impact of the COVID-19 pandemic and continued lack of access to support means many carers are at breaking point. But together, we have helped make life better for carers by bringing about a step change in the way that society recognises, values and supports the millions of unpaid carers in the UK."

Helen Walker, Chief Executive of Carers UK

A winning partnership

Our partnership with Carers UK won the 'Best Partnership with a National Charity' at the Better Society Awards

Planet

Supporting every customer to live more sustainably

Goal 4

Key: Progress against goals ▲ On track ▼ Behind

By 2050, we want to:	2021 Progress
Help our customers be net zero (28% reduction by the end of 2030)(1)	18% reduction† ▲

(1) Net zero goal measures the carbon intensity of our customers' energy use including electricity and gas with a 2019 baseline of 183gCO_2e/kWh, normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy. Target aligned to the Paris Accord and based on science, corresponding to a well below 2°C pathway initially and 1.5°C by mid-century.

† Included in DNV Business Assurance Services UK Limited (DNV)'s independent limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. See page 242 or centrica.com/assurance for more.

Around 90% of our total carbon emissions (scope 1, 2 and 3), come from the sale of gas and electricity to customers (scope 3). So the biggest thing we can do to fight climate change, is to help them use energy more sustainably. Towards this in 2021, we provided services and solutions that enabled the carbon intensity of our customers' energy use to remain strong at an 18% reduction against our 2019 baseline, which is similar to last year. This is equivalent to our customers saving the annual emissions of 1.6 million homes in 2021, and was largely due to renewable and low carbon energy tariffs alongside energy efficiency and optimisation solutions.

In 2021, we helped our customers advance towards net zero by supporting them with measures to decarbonise power, heat and transport having:

- Maintained a leadership position in driving electric vehicle (EV) take-up with over 20,000 charge points installed since 2013, whilst integrating EV charging into our Hive smart home platform.
- Launched a new air source heat pump business to accelerate delivery beyond the 1,900 already installed across social housing.
- Expanded customers on our Green Future tariff which is one of the greenest on the market and we were one of only two companies awarded the Uswitch Gold Standard for renewable tariffs.
- Provided a route-to-market for renewables with 11.7GW under management, which can power around 10 million homes.

Goal 5

By 2045, we want to:	2021 Progress
Be a net zero business (40% reduction by the end of 2034)(2)	82% reduction ▲

(2) Net zero goal measures scope 1 (direct) and 2 (indirect) greenhouse gas emissions based on operator boundary which excludes Spirit Energy and Nuclear emissions, and is normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy, against a 2019 baseline of 1,146,601mtCO_2e. Target aligned to the Paris Accord and based on science.

As part of our strategic transformation, we produce over 90% less carbon than we did a decade ago having moved away from the majority of our carbon intensive energy assets and businesses, to focus on providing energy services and solutions for our customers. As part of this, we continued to make progress against our net zero target in 2021, with our total carbon emissions decreasing by 78% from 2020 and 82% from the 2019 baseline. Whilst the main driver of emissions reduction related to a temporary outage at Whitegate power station in Ireland, sustainable savings were also achieved through low carbon fleet initiatives like rolling out EVs and green tariffs, delivering property efficiencies across lighting, heating and cooling systems, alongside savings arising from the restructuring of our business. In 2022, we expect our emissions to rebound as Whitegate resumes normal operations to play its important role in ensuring the security of supply in Ireland.

3,000

Our order for commercial EVs during 2020-21, the largest made in the UK

CENTRICA STORIES

Launching our Climate Transition Plan

In 2021, we set out how we plan to deliver our net zero targets whilst ensuring a fair and affordable transition for all.

- For customers, we'll accelerate the delivery of energy efficiency and optimisation services, low carbon technologies and cleaner energy. This includes 2025 aspirations to double the number of Hive customers to 2.5 million, achieve annual installs of up to 100,000 EV charge points and 20,000 heat pumps, whilst remaining a leader in the supply of zero carbon electricity for homes and investing up to £100 million in low carbon and transition assets each year.
- Within our business, our ambition is to build a zero emission fleet in the UK by 2025 and cut our UK property emissions by a further 50% by 2030. At the same time, we plan to progress our strategic transformation to exit our remaining activities in oil and gas exploration and production and redirect investment into assets that drive the transition forward – from securing up to 800MW of low carbon and transition assets including solar and battery storage by 2025, to exploring the conversion of our Rough gas storage facility to store hydrogen.

These aspirations provide great opportunities for us and our customers, but they will be challenging and require customers, government and others to play their part as we play ours.

And for it to be a success, we'll also need to ensure we don't leave anyone behind. So we'll endeavour to champion the needs of our customers and support those who struggle with their energy bills, create thousands of high quality inclusive green jobs, back sustainable initiatives in communities and collaborate for a low carbon supply chain.

The Climate Transition Plan will go for shareholder advisory vote at the AGM in 2022.

Read more at centrica.com/climatetransition

Task Force on Climate-related Financial Disclosures

Climate change is one of the greatest challenges facing society. And as an energy company, we'll play an increasingly pivotal role in helping our customers and our business transition to net zero. It's therefore important that we share our action and plans on climate-related matters in a transparent and robust way.

Listing Rule Compliance

We've complied with the requirements of LR 9.8.6R, by including climate-related financial disclosures that are consistent with the TCFD recommendations and recommended disclosures across the four pillars.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Signatories of the Task Force on Climate-related Financial Disclosures since 2020

CDP DISCLOSURE INSIGHT ACTION

'A-' leadership rating for action and disclosure on climate change by CDP

Governance

Our Group Chief Executive has overall accountability for climate change and ensures the issue is consistently discussed at the highest levels of the Company. As part of this, the Board has direct oversight over climate change and reviews related issues through a regular flow of information from its Committees. The Board is principally supported by the Safety, Environment and Sustainability Committee (SESC), which is chaired by an independent non-executive director, and typically reviews climate change information three times a year. This allows the SESC to maintain oversight over climate-related content raised and discussed as frequently as required at Centrica Leadership Team (CLT) meetings, which are held monthly. The Board is further aided by the Audit and Risk Committee in reviewing stated matters quarterly whilst also overseeing audit and risk matters at CLT meetings. Meanwhile, the Remuneration Committee ensures climate change is considered in remuneration arrangements and in 2022, climate transition KPIs were incorporated into incentive plans for Executive Directors and other key colleagues across the Group (see page 72).

Climate change is an increasingly important issue for the Board and our business. In 2021, members of the Board regularly engaged investors, government and regulators on climate change and attended COP26 events. We therefore continuously review capabilities to ensure the Board has a wide range of skills relevant to climate change across energy, regulation, geopolitics and technology. In 2021, we further developed Board capabilities by running a deep-dive session on climate change and the energy transition with internal and external experts. Best practice in climate governance for Boards was also reviewed, covering topics such as strategic planning, climate risk and opportunities alongside Board capability and emerging issues, from which we've identified areas for continual improvement. These improvements include further embedding climate risk and opportunities into strategic planning processes as well as incorporating KPIs within the remuneration scheme for Executives which was progressed in 2022.

The Board and its Committees work closely with senior managers in Group Strategy and Environment who collaborate with business unit leaders to develop our climate strategy. Group Strategy and Environment additionally co-ordinate members of the TCFD Working Group, which includes Group Enterprise Risk and Control who manage the integration of climate risk into the Enterprise Risk Management (ERM) Framework and Group Finance who support the businesses to understand the financial impacts of net zero. Group HR then integrate ESG targets into remuneration frameworks.

The Board

Remuneration Committee	**Safety, Environment and Sustainability Committee**	**Audit and Risk Committee**
	Centrica Leadership Team	
• Agrees climate-related KPIs that apply to executive remuneration and wider bonuses paid.	• Reviews and approves proposals for climate-related targets. • Reviews and approves Climate Transition Plan (CTP) and TCFD analysis. • Reviews performance against climate targets and CTP ambitions. • Receives updates on stakeholder ESG expectations.	• Reviews climate-related risks. • Reviews integration of climate-related factors into Financial Statements.

Working groups

Strategy

To assess our resilience to climate change, we chose several independent climate scenarios that are most relevant to our business and to national climate targets set by government across our key markets of the UK and Ireland. The scenarios allow us to test the implications of various plausible pathways relating to global warming of 1.5°C to 4°C[1]. Using our in-house scenario analysis model, we then assessed the potential negative and positive implications of each climate scenario on our gross margin (GM) for key services and solutions alongside asset valuations over the short, medium and long term which correspond to 2025, 2035 and 2050.

The scenario analysis in 2021 showed that based on our strategic plans and capabilities, we're well-positioned to mitigate the risks and seize the opportunities related to climate change. Whilst some areas of our business will inevitably face bigger challenges than others as the world increasingly decarbonises, our modelling suggests an overall net financial benefit for the Group as we evolve in line with the needs of the energy transition and deliver on our purpose of helping our customers live sustainably, simply and affordably (see page 32 for a summary of our Climate Transition Plan).

In particular, the analysis showed that we're potentially exposed to transitional risks and opportunities such as policy and regulatory changes that could range from 'low to high' in significance over the longer term. The risks primarily relate to the gradual phase-out of natural gas in heating, which although an essential transition fuel in the mid-term, could require a shift in the range of products and services we offer our customers in the future. Decarbonisation also presents significant opportunities for the Group including low carbon heating, energy optimisation and EV charging as well as the development of new assets like solar and battery storage.

Meanwhile physical risks such as those associated with extreme weather and rising mean temperatures, have been identified as 'low' in significance over the near and longer term. This is because we're transitioning away from being an asset-heavy business, and whilst the potential to impact on energy supply chains as well as customer supply and demand remain, these risks are expected to be lower with increased levels of decarbonisation and are effectively managed through defined hedging strategies and collaboration with counterparties. As with all risks identified, we'll continue to monitor these risks so that we can act if the level of anticipated impact rises.

Summary of our most material risks and opportunities[2]

Impact on gross margin (GM)

Low	Medium	High

TFCD category	Climate related trend	Potential financial impact		Potential materiality 2025 {short term}	2035 {medium term}	2050 {long term}	Strategic response and resilience
Transition: Policy, Markets and Technology	Transition away from fossil fuelled heating	**Risk 1**: Reduced GM from the sale and servicing of natural gas residential boilers and commercial Combined Heat and Power (CHP)	>2°C	Low	Low	Low	• Ambition to remain a market leader in heating solutions in the UK and Ireland, growing market share in heating installs. • Expanding roll out of hydrogen ready boilers.
			1.5°C	Low	Medium	High	
Transition: Policy, Markets and Technology	Growth in low carbon heating market	**Opportunity 1**: Increased sales and servicing of electric and hydrogen fuelled heating systems, alongside associated opportunities in fabric upgrade including insulation	>2°C	Low	Medium	Medium	• Heat pump business launched with material growth plans, aiming for 20,000 installs a year by 2025 and build from there. • Partnering in hydrogen use trials and technology as well as research and development into low carbon CHP to grow adoption and capability.
			1.5°C	Medium	High	High	
Transition: Policy, Markets and Technology	Transition away from natural gas	**Risk 2**: Reduced GM from the sale of natural gas	>2°C	Low	Low	Low	• Ambition to grow customer numbers in UK energy supply.
			1.5°C	Medium	High	High	
Transition: Policy, Markets and Technology	Growth in low carbon heating market	**Opportunity 2**: Increased sales of electricity and green/low carbon hydrogen	>2°C	Medium	Medium	Medium	• Strategic aim to grow customer numbers in UK energy supply. • Partnering in hydrogen production and use trials to grow capability and adoption. • Capability to pursue hydrogen trading.
			1.5°C	Medium	Medium	High	
Transition: Markets	Growth of EV transport market	**Opportunity 3**: Access to new and growing value pools related to EV charger installs, operation and maintenance (O&M), and energy supply	>2°C	Low	Low	Medium	• Aim to become a leader in EV charging infrastructure install and O&M. • Ambition to install up to 100,000 EV charge points a year by 2025 and continue to grow from there.
			1.5°C	Low	Medium	Medium	
Transition: Energy Source	Growth in demand for renewable energy	**Opportunity 4**: Strong growth in solar and battery markets driven by decarbonisation	>2°C	Low	Low	Low	• Strategy to invest up to £100 million a year by 2025, to secure up to 800MW of low carbon and transition assets like solar and battery. • Value derived from install, O&M and asset ownership.
			1.5°C	Low	Low	Medium	

(1) Transitional impacts are assessed using the National Grid Future Energy Scenarios comprising four different pathways for the future of energy out to 2050, where assumptions on energy demand, production and use cases are adjusted. This allows detailed modelling of the potential impacts of the energy transition in the UK and Ireland at the individual product and commodity level, such as the demand for natural gas, electricity, hydrogen and the adoption of technologies like heat pumps, EV's and insulation. Physical impacts are assessed using the Intergovernmental Panel on Climate Change Representative Concentration Pathways as they allow physical climate attributes to be modelled such as temperature and sea level rise, flooding and extreme weather, across differing average temperature rises resulting from varying radiative forces. To assess asset impairment, we use the International Energy Agency Net Zero Emissions scenario and Aurora Net Zero Mixed & High RES scenarios, which model 1.5°C pathways to net zero for the energy sector and allows us to model the potential impact on global and regional demand for different energy sources responding to drivers such as carbon pricing. This in turn affects commodity prices and the potential implications for the valuation of oil, gas and power assets.

(2) A well-below and well-above 2°C scenario for global warming is used to best demonstrate the spectrum of proactive and inactive progress on climate change in our key markets and the impact this may have on our business.

We also assessed the risk of asset impairment on price forecasts, whereby our most exposed assets were our exploration and production (E&P) fields alongside our investment in Nuclear. We found that the impact on the value of our E&P assets were relatively 'low' due to existing impairment headroom, whilst our investment in Nuclear saw a positive increase given baseload power price scenarios are higher under net zero price forecasts (see note 7).

All modelled scenarios contain significant opportunities for capital investment into new and existing assets and technologies required by decarbonisation. The requirement for capital expenditure to manage potential risks and substitution opportunities has been assessed as being in line with current plans.

Our identification and assessment of how climate-related issues might affect our business serves as an input into our annual strategic and financial planning process. In 2021 we explicitly addressed net zero and the energy transition in all business unit strategic plans, which underpins how we are pivoting our organisation towards a lower carbon future and shapes our decisions on assets, supply, services and solutions. In 2021 we provided a coherent description of the resulting strategy in our first ever Climate Transition Plan.

Risk management

In 2021, transitional and physical climate risks were predominantly managed via our ERM Framework. This enabled us to effectively identify, assess and manage risks in a consistent way Group-wide. Our ERM Framework uses a time horizon of 1–3 years to assess Principal Risks alongside a longer timeframe of 3–20 years to assess Emerging Risks. Following this process, climate change has been made a Principal Risk which applies to the 2021 reporting period.

As part of our wider strategic planning process, Group Strategy and Environment run the climate scenario analysis to identify and assess risks and opportunities across a range of plausible future scenarios. They then work closely with the Group Enterprise Risk and Control team to ensure full consideration of potential financial impacts across time horizons and integration within the ERM Framework and Principal Risks register. Together, they ensure climate-related risks and opportunities are shared with the CLT, Group Audit and Risk Committee, SESC and the Board.

Going forwards, we'll continue to embed and enhance understanding and controls related to climate change risks and opportunities so that we're effectively managing the issue.

Metrics and targets

We were early adopters of best practice reporting of greenhouse gas emissions and have a strong track record in setting and achieving climate-related targets. We therefore have metrics and targets in place to help us manage our impact on climate change which includes monitoring and reporting our global scope 1, 2 and 3 emissions (see table below), which we've achieved limited external assurance† over alongside others, every year since 2012. In 2021, we also strengthened our existing net zero targets by committing to be a net zero business by 2045 and to help our customers be net zero by 2050 (see page 32). These targets are aligned to the Paris Accord and in 2021, we committed to have them validated by the Science Based Target initiative (SBTi) which we're aiming to do within the two-year window SBTi provides. And off the back of our Climate Transition Plan launched earlier in 2021, we recently developed a Climate Transition Dashboard which the CLT and Board will use to track progress on our strategic response to climate-related risks and opportunities, and includes our ambition to ramp up key services and solutions for a more sustainable future such as EVs, heat pumps and solar (see page 32). All of these stated metrics and targets are the primary way in which we currently measure and manage our impact on climate change, but we expect this set of metrics and targets to evolve as we keep pace with best practice and respond to the changing world around us.

We recognise, however, that delivering our targets and reducing our impact on climate change is in part dependent on having a policy and regulatory environment that supports our net zero objectives. So we have continued to advocate for positive policy development relating to issues like the decarbonisation of heat, transport and increased system flexibility.

In 2022, climate transition KPIs were further elevated as a key focus for the business with the link to incentive plans for Executive Directors and other key colleagues.

Read more about governance on Pages 48 to 73

Read more about our strategy on Pages 7 and 10 to 11

Read more about Principal Risks and Uncertainties on Pages 38 to 43

Read more about metrics and targets on Pages 32 and 242 to 244

Our energy and carbon emissions

	2021	2020
Total carbon emissions (scope 1 and 2)	**226,904tCO_2e†[1]**	989,546CO_2e[2][3]
Scope 1 emissions	**222,064tCO_2e†**	982,469tCO_2e[3]
Scope 2 emissions	**4,840tCO_2e†[4]**	7,077tCO_2e[3][5]
Scope 3 emissions[6]	**23,097,452tCO_2e**	116,947,439tCO_2e[3]
Total carbon intensity by revenue[7]	**15tCO_2e/£m[8]**	41tCO_2e/£m[3][9]
Total energy use	**1,142,249,379kWh†[10]**	5,165,166,409kWh[3][11]

Our energy and carbon emissions set out above and on page 32, constitute our most material areas of environmental impact. Further metrics on energy and carbon as well as our wider environmental metrics, can be found on pages 36 and 244, with additional metrics available at centrica.com/datacentre. Our reporting practices are drawn from the WRI/WBCSD Greenhouse Gas Protocol and Defra's Environmental Reporting Guidelines.

† Included in DNV's independent limited assurance report. See page 242 or centrica.com/assurance for more. (1) Comprises UK 162,460tCO_2e and non-UK 64,444tCO_2e. (2) Comprises UK 203,955tCO_2e and non-UK 785,590tCO_2e. (3) Restated due to changes in methodology following a move from equity to operational control to align with the more commonly used organisational boundary approach set out by the WRI/WBCSD Greenhouse Gas Protocol and means that Spirit Energy and Nuclear are not included, whilst scope 2 and 3 have moved to a market-based approach to better reflect our decisions on where we source imported power. (4) Location-based 10,352tCO_2e. (5) Location-based 13,687tCO_2e. (6) Includes emissions from the following scope 3 categories defined by the Greenhouse Gas Protocol: purchased goods and services, capital goods, fuel and energy related activities, waste generated in operations, business travel, employee commuting, upstream and downstream transportation and distribution, use of sold product and investments. All emissions are calculated in line with the methodologies set out by the Greenhouse Gas Protocol's technical guidance, apart from working from home emissions which are based on methodology set out in EcoAct's homeworking emissions whitepaper. (7) Carbon intensity of revenue is employed as our intensity measure because it is the most meaningful intensity measure for our diverse business and is the most widely used and understood measure for climate-related stakeholders such as CDP. Based on statutory revenue. (8) Comprises UK 15tCO_2e/£m and non-UK 17tCO_2e/£m. (9) Comprises UK 21tCO_2e/£m and non-UK 54tCO_2e/£m. (10) Comprises UK & Offshore 739,687,327kWh and non-UK energy use 402,562,052kWh. (11) Comprises UK & Offshore 866,199,955kWh and non-UK energy use 4,298,966,454kWh.

Our foundations

Our People & Planet Plan is underpinned by strong foundations that ensure we act fairly and ethically.

Customers

2021 was another challenging year for customers and we wanted to be there for them. We spent £304.86 million in mandatory and voluntary contributions to help those who struggled with their energy bills. For example, nearly 535,900 customers were helped via the UK's Warm Home Discount scheme whilst additional assistance was prioritised for those impacted by the pandemic and energy market crisis which included our new £4 million Fuel Fund to help our most financially vulnerable customers (see page 8). On top of this, we provided energy advice and grants for customers and non-customers alike via the British Gas Energy Trust (see page 31) which helped around 31,600 people during the period.

With our net promoter score and complaints impacted by COVID-19 and industrial action alongside reduced engineer capacity, we'll endeavour to improve service levels in 2022 (see pages 23 to 24).

Colleagues

We want our people to feel safe, engaged and rewarded. To protect our people from COVID-19 during 2021, we ensured all field workers were provided with personal protective equipment and operated in line with government guidance to keep themselves and our customers safe. Our Tier 1 and 2 process safety incident frequency rate did, however, worsen following three Tier 2 events compared to zero in 2020. The events related to Centrica Storage Limited and resulted in remedial action including enhanced inspection regimes across piping systems and switching to a new asset integrity inspection company. Our total recordable injury frequency rate also worsened slightly by 3% to 1.07 per 200,000 hours, largely due to the impact of COVID-19 and organisational restructuring on working hours. We've since seen improvements in safety performance and hope to continue this by ensuring safety remains front-of-mind, whilst reinforcing a strong safety culture and advancing controls and monitoring. Alongside physical health, we were mindful of the impact COVID-19 coupled with changes to our business, could have on mental health. We helped provide peace of mind by ensuring everyone had the flexibility to adjust working hours to accommodate caring responsibilities and temporarily amended policies to ensure COVID-related absence wouldn't impact pay. In addition, we ran campaigns that talked about the importance of being open about mental health and encouraged use of our mental health suite which includes our 130-strong mental health first aiders and the 'Unmind' wellbeing app. Our Flexible First approach to working also supports wellbeing as it empowers colleagues to choose when to work from home or go into the office to connect and collaborate, enabling them to better balance work alongside personal commitments.

Improvements like these have helped our engagement score improve by 13% to 55% favourable in 2021, which is key to productivity. We've a big opportunity to build on this by continuing to create a more inclusive and supportive place to work.

As a responsible employer, we also reward our people fairly. This includes paying at least the Living Wage in the UK and upholding equal pay. In 2021, our gender pay gap improved by 5% to 30% median and continues to be driven by more men working in higher paid roles like engineering coupled with more women in lower paid customer service and administration roles. We're one of few companies to have voluntarily published our ethnicity pay gap which is driven by similar factors to our gender pay gap, and improved by 1% to 13% median. Tackling the pay gap will not be quick or easy, but we hope to continue to transform our business and sector as our People & Planet Plan gets fully underway (see pages 29 to 30).

Communities and ethics

Our Code and Our Values help us operate in a way that's beneficial to communities by setting out the high standards we expect and ensuring we embrace them. For example, Our Code includes our commitment to uphold and protect human rights. We therefore take action to ensure colleagues and workers in our supply chain are safeguarded from abuses through activities like risk-based training, due diligence and monitoring of supplier selection and renewal, as well as conducting audits across our supply chain. And to date, we've found no instances of modern slavery. We also have clear guidance on bribery and corruption. We prohibit any improper payments, including facilitation payments regardless of value or jurisdiction, and exchange gifts and hospitality responsibly through a register. Anti-bribery training is also provided for higher risk roles and our Financial Crime team run third-party risk management screening. Due diligence and monitoring is additionally undertaken across supplier selection and contract renewals, whilst a register is used to record and manage potential or actual conflicts of interest.

During 2021, 98% of colleagues completed refresher training on Our Code and confirmed they would uphold its principles. And if anyone has concerns about Our Code not being upheld, they can raise them via our confidential Speak Up helpline. In 2021, we had 1.3 reports per 100 employees which largely aligns with the external benchmark of 1.4, and demonstrates that colleagues feel safe to speak up. Reports are investigated by the Ethics and Compliance team, with quarterly monitoring via SESC and the Audit and Risk Committee, with matters brought to the attention of the Board as appropriate.

We also strive to use our purchasing power to contribute positively to workers in our supply chain. So in 2021, we continued to assess suppliers on their social and environmental standards. Overall, our sustainability score remained strong at 68 (low risk), which is better than the multi-industry average of 51 (medium risk). If suppliers receive a high-risk rating, we consider appropriate action, which may involve conducting a site audit to better understand the level of risk on issues like human rights, or ending our relationship and reporting the abuse. During 2021, we were unable to conduct on-the-ground site audits due to COVID-19, so we deployed remote worker surveys to nearly 7,000 workers in higher risk countries like China, Bangladesh and Pakistan. Whilst no material issues were identified, insight enabled a supplier to subsequently provide training to help workers manage their personal finances better.

Environment

We closely monitor and manage our wider environmental impact. During 2021, our water consumption dropped by 62% to 66,762m^3 and waste declined by 12% to 12,756 tonnes. This was largely due to lower power station activity and reduced site occupancy as colleagues increasingly worked from home.

"Flexible First has transformed my ability to balance work and caring. I'm now able to work without the stress of being away from home too much and can really focus on work as well as access development opportunities that would've been extremely difficult before."

Marie McCann, Customer Service Adviser

Non-Financial Information Statement

In line with the Non-Financial Reporting Directive, we have set out where the relevant information we need to report against can be found.

This includes an explanation of the relevant Group policies which relate to the below matters and an overall summary of their effectiveness, including specific examples of how these policies are implemented, any due diligence processes conducted and outcomes.

Reporting requirement	Section
Business model	Our Business Model – Pages 12 to 13

Reporting requirement and policy position	Due diligence and outcome	Impact of COVID-19
Our Code sets out our position on key issues by providing a high-level summary of key policies that form the foundation for how we do business. **Read more at** centrica.com/ourcode		
Colleagues Our policy states that we work collaboratively to create a workplace that has a respectful and inclusive culture whilst offering fair reward and recognition. We're also committed to working safely and provide proactive support to ensure colleagues' health and wellbeing.	• Group Chief Executive's Statement – Page 4 • Stakeholder Engagement – Page 9 • Chief People Officer's Report – Pages 26 to 27 • People and Planet – Pages 29 to 31 and 36 • Principal Risks and Uncertainties: Capability of People, Highly Competitive Markets, Legal, Regulatory & Ethical Compliance, Health, Safety, Environment: Process Loss and Containment and Asset Production – Pages 39 and 40 to 43 • Key Performance Indicators (KPIs) – Pages 15, 26 to 27, 29 to 31, 36 and 242 to 243	• Chairman's Statement – Page 2 • Group Chief Executive's Statement – Page 6 • KPIs – Page 15 • Chief People Officer's Report – Page 26 • People and Planet – Pages 30 and 36 • Principal Risks and Uncertainties: COVID-19, Health, Safety, Environment: Process Loss and Containment – Pages 39 and 43
Environmental matters This policy sets out that we endeavour to understand, manage and reduce our environmental impact. Towards this, we will play our part in the transition to net zero.	• Chairman's Statement – Page 3 • Group Chief Executive's Statement – Pages 5 to 6 • Marco Trends – Page 7 • Stakeholder Engagement – Page 9 • Principal Risks and Uncertainties: Climate Change, Health, Safety, Environment: Process Loss and Containment, Political and Regulatory Intervention, Asset Production, Highly Competitive Markets and Weather Risk – Pages 39 to 43 • People and Planet – Pages 32 to 36 • KPIs – Pages 32, 35 to 36, 242 and 244	• People and Planet – Page 36
Social matters Our policy states that we will treat all of our customers fairly. As part of this, we strive to provide services and solutions that meet their needs as well as care for customers who need extra support. We also want to make a difference and help create more inclusive communities. We partner with community and charity organisations on key issues and inspire colleagues to volunteer and fundraise.	• Stakeholder Engagement – Pages 8 to 9 • People and Planet – Pages 30 to 31 and 36 • Principal Risks and Uncertainties: Weather Risk, Political and Regulatory Intervention, Highly Competitive Markets, Cyber Risk and Legal, Regulatory & Ethical Compliance – Pages 39 to 43 • KPIs – Pages 23 to 25, 30 to 31, 36 and 242 to 244	• KPIs – Page 15 • Business Review – Pages 23 to 25 • People and Planet – Pages 30 to 31 and 36 • Principal Risks and Uncertainties: COVID-19 and Legal, Regulatory & Ethical Compliance, Health, Safety and Environment; Process Loss and Containment – Pages 39, 43 and 46
Human rights This policy commits that wherever we work in the world, we respect and uphold the fundamental human rights and freedoms of everyone who works for us or with us.	• Stakeholder Engagement – Page 9 • People and Planet – Page 36 • Principal Risks and Uncertainties: Legal, Regulatory & Ethical Compliance – Page 43 • KPIs – Pages 36 and 244	• People and Planet – Page 36
Anti-bribery and corruption Our policy commits us to working with integrity, within the laws and regulations of all the countries in which we operate and in accordance with recognised international standards. This includes not offering or accepting bribes or other corrupt practices. We will not tolerate any form of bribery or corruption from suppliers.	• People and Planet – Page 36 • Principal Risks and Uncertainties: Legal, Regulatory & Ethical Compliance – Page 43 • Based on materiality, KPIs specific to anti-bribery and corruption are not reported externally.	• No material impact.

Our Principal Risks and Uncertainties

We manage risks to support our Group strategy

Risk management

In the following pages we set out an overview of Centrica's risk management framework. Our Principal Risks remain linked to our Group Priorities and the Group's risk appetite is expressed in relation to our four categories of risk: Strategic, Operational, Financial and Compliance.

Risk management and internal control

Centrica's Group Enterprise Risk and Internal Controls Framework remains a core element of the Group's Governance Model which is set out below.

The most significant Principal Risks to the Group are set out on pages 40 to 43, in order of magnitude to the Group.

The annual risk management process is summarised in the diagram below.

Risk appetite

The Board is ultimately responsible for aligning the risk appetite of the Group with our long-term strategic objectives, taking into account the emerging and Principal Risks. The Board has determined the risk appetites for the categories of Strategic, Operational, Financial and Compliance, and the key risks within Centrica's Risk Universe have been mapped into these categories.

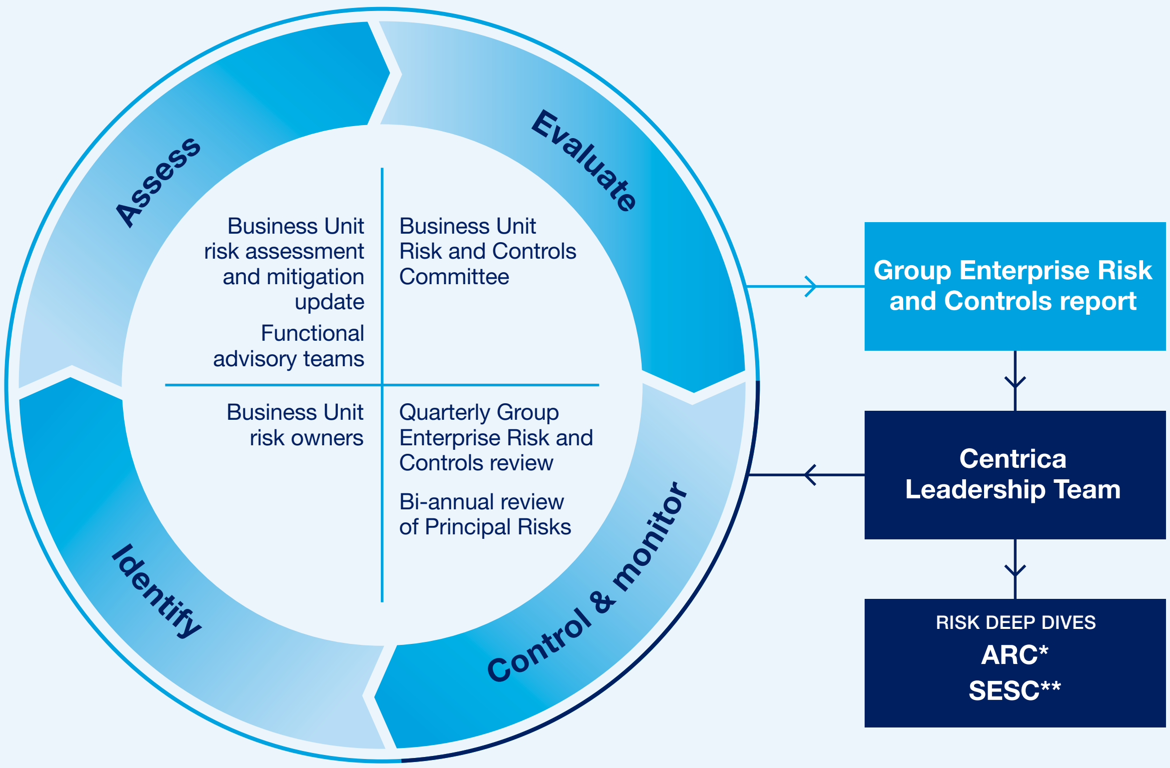
Due to the industry and the nature of some of the markets in which the Group operates, we have high to moderate risk appetites for our strategic and operational risks. However, we have a minimal risk appetite for operational safety risks and we continue to strive for an incident free workplace. For financial risks we adopt a conservative approach to manage our liquidity position and balance sheet strength. However, due to the higher risks inherent in managing the commodity and weather variables within our energy supply businesses, we accept a higher appetite for certain elements of financial markets risk. We are committed to operating our businesses in compliance with relevant laws and regulations.

Risks are assessed at a Business Unit (BU) level to determine impact and likelihood. During the BU and Group level risk reviews the adequacy of mitigating actions is considered to determine the net residual risk scores and compare them to the Group risk appetite.

Risk framework

Day-to-day ownership of risk sits with business management under the regular scrutiny of the Centrica Leadership Team (CLT) to whom the Board has delegated principal responsibility for risk oversight. The Group Principal Risks are those which could potentially impact delivery of our strategic objectives over the medium to long term, where medium term is up to three years, as determined through our strategic planning process.

Centrica Group's Annual Risk Management Process



*Audit and Risk Committee (ARC)
**Safety, Environment and Sustainability Committee (SESC)

Quarterly Business Unit risk reviews

- Each BU is responsible for identifying and assessing its significant risks with support from functional subject matter experts. Current and emerging risks and issues are formally reviewed quarterly by the BU leadership teams.
- The finalised risk reporting and assessment of each BU's control environment is then formally discussed at a Group Risk and Controls Review for each BU. The meetings were chaired by the Group CFO until November, and then by the Director of Risk and Internal Audit.
- At these quarterly reviews, recent assurance reports and findings from internal audits and other assurance reviews are discussed. Actions from previous audits and assurance reviews are tracked to ensure close out in line with agreed timescales.

Executive and Board Committee reviews

- Bi-annually the Group Principal Risks are presented to the CLT for review and challenge.
- These include the aggregate risk assessments from the BU 'bottom-up' process and any Group level risk assessments.
- The Group Principal Risk profile, as updated by the CLT, is presented to the ARC for review.
- Internal Audit presents quarterly to the ARC on any material findings as a result of independent assurance work.
- Risk deep dives are undertaken by the ARC and SESC to review high priority risks, ad-hoc topics and emerging matters.

In our assessment of viability, we consider the potential impact of 'severe but plausible' risks and note linkages to the Group Principal Risks as described on pages 40 to 43. The annual Viability Assessment has been presented to and approved by the ARC.

Board

- The Board reviews risk as part of its strategy review process and during the year conducted a robust assessment of the Company's principal and emerging risks.
- At the year-end the Board reviewed and approved the Principal Risk and Uncertainties disclosure.
- On an annual basis we evaluate our System of Risk Management and Control, which is supported by an annual certification of controls and adherence to Group policies by senior management.

Changes in risk climate and emerging matters

BUs and Functions review their risks and report key changes as part of their Business Performance and Risk Reviews. Major emerging risks and issues are escalated immediately.

During 2021 a number of Group level areas of risk were closely monitored, and actions taken to mitigate their impact on the Group.

Energy market

Current global wholesale energy prices are putting pressure on the energy market, with gas and electricity prices reaching record levels. Some smaller suppliers have ceased trading, leaving them unable to fulfil their commitments to supply gas and electricity to their customers. Centrica has stepped in as the Supplier of Last Resort (SoLR) for some of these energy suppliers, taking on around 700,000 residential and 6,600 business customers by the start of 2022.

It is anticipated there will be increased customer contact due to increased prices along with an increased risk of customer bad debt.

Price levels and volatility have severely increased the commodity and weather risks, alongside potential unstable customer churn through Winter 21/22 and the increase in the price cap in April 22. The Group is addressing this by implementing agile hedging policies/risk management and effective demand forecasting processes.

COVID-19

COVID-19 continues to pose significant challenges to the risk management and resilience of businesses globally. Centrica has a robust approach to risk management which enables rapid mobilisation of resources to react and mitigate the ongoing impacts of the pandemic, and working practices continue to be monitored and modified as required. Changes in operational processes and working practices were adopted to minimise the impact of COVID-related absences. We are actively sourcing alternative parts and accelerating stock through the supply chain to mitigate the risk of shortages of parts and components, but there are no specific changes to any Principal Risks.

Legal, Regulatory or Ethical Compliance

During the year the Skilled Persons Review under s166 of the Financial Services and Markets Act 2000 was successfully closed and the legal challenge to the Belgian regulator imposing a fine on CBS for its bid pricing on the flexible reserve market upheld. While the risk climate remains stable, compliance continues to be an important area of focus.

Customer Service

A key area of focus in the UK is the expansion of field engineer capacity following attrition in 2021 to enhance customer service levels. Centrica faces constraints in its efforts because of the shortage of skilled labour in the wider economy affecting many sectors and the time taken to train new apprentice engineers. Whilst temporary resources are actively being recruited, this labour shortage, combined with a programme to change systems and processes, creates a short term risk in some parts of the country to the consistency in the level of service provided to customers.

Industrial Action

Contingency plans were implemented to manage the impact of industrial action in Q1 2021 on our customers, colleagues and our business. New employee terms and conditions were introduced in April 2021 and new collective agreements signed with Trade Unions. These set out new ways of working with the Trade Union and the introduction of a Centrica-wide set of policies and procedures. We continue our dialogue with our Trade Union representatives and work towards building positive relationships. We will continue to monitor this risk closely through 2022.

Technology

Advances in technology bring both opportunities and threats in the medium term. Failure to adapt and exploit opportunities from advances in technology in the medium term will impact our ability to grow, compete and meet the changing needs of our customers. Digital connectivity and intelligent systems supported by advanced analytics and artificial intelligence will drive unanticipated changes. We continue to automate and integrate our operations and monitor the changing technology landscape, but this has not led to any specific changes in Principal Risks.

Supply Chain

Supply chain issues with boiler and part supply are being closely monitored as a forward-looking risk, driven largely by microchip shortages. Measures have been taken to minimise the short-term impact, including securing alternative supply routes and working closely with our suppliers. Group Procurement have developed an impact assessment of potential financial and operational impacts of current supply chain issues on the 2022 forecast. We are actively monitoring the situation closely with our suppliers but at present this is not leading to a change to the Principal Risks.

Principal Risks

The following Principal Risks were adopted by the Board in 2021 and reflect the position of the Group at the point of signing the accounts. The risks are presented in order of magnitude to the Group based on net residual risk after mitigations. The Risk Climate is the expected change in the risk landscape from the previous risk review, based on the environment and controls in place.

Commodity Risk

Risk Category: Financial

Group Priority	Risk Climate
Cash Flow Growth	Deteriorated

Overview

Risk of financial loss due to our exposure to market, credit and operational risk.

- Material downward movements in commodity prices can impact in-year P&L through impact on sale of asset production, and impact on the long-term valuation of asset portfolios.
- Commodity exposure arises within the trading businesses, which provide a route to market for Centrica's upstream and power generation operations, source electricity and gas for the Group's energy supply businesses and trade on a proprietary basis. We also have commodity exposures within our LNG portfolio and, in particular, the Cheniere, Shenergy and Mozambique contracts.
- Changes in our customer demand requirements can result in a commodity exposure as we balance our established hedges at market prices.
- Hedging commodity price risk in the markets exposes Centrica to credit risk (and supply shock), which is the risk of a loss if a counterparty fails to perform on its obligations. Trending directional price moves leads to a build-up of mark to market which is a component of credit risk.
- Volatile commodity markets can also increase cash and working capital requirements for both ourselves and our counterparties (with the latter increasing credit risk and the risk of contagion).

Mitigations

- Review of hedging policies in bi-annual Group Committee.
- Financial risks reviewed regularly in dedicated Risk Committee forums within trading entities.
- The monthly Downstream Energy Margin Meeting is a forum for all relevant parties to review demand forecasting performance, hedge positions, risk and P&L, with actions recorded and tracked to completion.
- Increased credit risk exposure review and mitigation actions taken, both within the individual BUs and at a Group level.
- Updated exploration & production (E&P) hedging policy to help mitigate risk of commodity fluctuations.

Developments

- Implementation of bi-annual Group Risk Hedging Policy Committee.
- Trading positions have been scaled down to align with risk appetite given that high market prices in a high volatility environment have driven increased market risk.
- Teams more actively managing credit exposures, which have increased to very high levels, through triangulations and other risk reducing trades. Teams are also actively monitoring counterparty liquidity stresses.
- Daily cash movements on margined counterparties have been significant, driven by the high price and high volatility commodity price environment seen in 2021. Positions have been flattened with the highest risk counterparties to minimise exposures to daily cash movement.
- Increased outage risk of aging assets leads to greater volume uncertainty.

Weather Risk

Risk Category: Financial

Group Priority	Risk Climate
Cash Flow Growth	Deteriorated

Overview

The impact on present or future profitability resulting from volume impacts as a result of deviation to normal weather.

- The impact is compounded by the application of the price cap which limits recovery for unseen demand.
- In normal conditions, downstream is exposed to revenue loss in warm weather which may be compounded by selling hedges at a loss.
- When commodity prices are higher than the cap allowance, as is the case for Winter 21/22, the risk exposure is primarily to cold weather when additional volumes may be required for downstream customers at a cost higher than can be recharged.

Mitigations

- The monthly Downstream Energy Margin Meeting is a forum for all relevant parties to review weather impact and hedging proposals and performance, with actions recorded and tracked to completion.
- Options to mitigate weather risk in British Gas, to narrow the range of gross margin outcomes, are reviewed ahead of winter seasons with decision rights held by the CEO.
- Ensure adequate access to liquidity in stressed scenario.

Developments

- Increased frequency of updated demand curves which capture changes in demand driven by deviations from seasonal normal weather.
- Group strategic hedge approved to reduce the exposure to high price and cold weather risk across Centrica business units.

Our Group Priorities

- Customer Obsession
- Operational Excellence
- Most Competitive Provider
- Cash Flow Growth
- Empowered Colleagues
- Safety, Compliance and Conduct Foundation

Asset Production

Risk Category: Operational

Group Priority

Risk Climate

Stable

Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise asset production or the long-term viability of our assets.

- Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance through unplanned outages.
- Failure to capture adequate return on our 20% nuclear investment due to operational issues suppressing earnings and cash flows or increased decommissioning costs.

- Group annual plan includes contingencies to cover events such as unexpected outages from assets.
- Group-wide minimum operational and safety standards are applied to all assets, whether operated or non-operated, and adherence against them is monitored and reported.
- Maintenance activity and improvement programmes are conducted across the asset base to optimise effectiveness and maximise production levels.
- We use our presence on the Board of EDF Energy Nuclear Generation Group Limited to monitor the performance of the Nuclear fleet.
- The E&P portfolio is not dependent on a single asset and the impact of an outage is diluted. The Spirit Energy joint venture structure also mitigates the impact of outages, and the risk will be reassessed following the completion of the sale of the Norway assets.

- We experienced nuclear plant availability issues throughout 2021. We are waiting for the outcome of an investigation into corrosion on a reactor at Hartlepool to determine whether there will be further outages at the Hartlepool and Heysham 1 nuclear stations. The closure of Dungeness and Hunterston nuclear stations has reduced the risk.
- During 2021, despite the continuing impact of the pandemic, Spirit Energy maintained all activity and programmes critical to the safe operation of assets.
- In December 2020 an outage occurred at Whitegate power station in Ireland. Repairs were completed and the asset returned to service in December 2021.
- The Rough field returned to service in November and is performing in line with planned levels. Discussions are continuing about options for the future of this asset.

Cyber Risk

Risk Category: Operational

Group Priority

Risk Climate

Stable

Risk of failure to prevent impacts from the denial of service, cyber espionage and the related theft/disclosure of confidential/customer data leading to reputational, regulatory and financial impacts.

A cyber attack presents a risk to Centrica operations in the following ways:

- Confidentiality: leakage of customer or company confidential data by threat actor, third party, staff or system error, either maliciously or by accident.
- Integrity: accuracy of Centrica's data due to malicious or accidental alteration by internal or external parties, or malicious actor.
- Availability: loss of assets, including data, due to cyber compromise.

Due to the diversity of Centrica's technology, the Company could suffer any or all of the above which could lead to:

- Regulatory compliance impact or fines, including but not limited to, General Data Protection Regulations (GDPR), Payment Card Industry-Data Security Standard (PCI), Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).
- Financial impact of investigating and recovering from a cyber attack.
- Reputational impact of negative media coverage.

- Ongoing collaboration and information sharing with industry peers and National Cyber Security Centre.
- The Cyber Security Change Programme focuses on improvements to controls that increase the difficulty of targeting Centrica and being able to exploit weaknesses.
- Information Security tooling deployment across the Group, that detects and prevents advanced attack techniques.
- Training and awareness campaigns and simulated Phishing attacks throughout 2021 to raise awareness and highlight responsibilities in protecting data.
- Cyber attack simulations to identify control gaps and undertake remediation activity.

- The external Cyber threat landscape has seen a significant shift in the use of targeted Ransomware campaigns against corporations, utilising Ransomware as a service. The sophistication of attacks has increased, with data removed, and backups disabled to increase the pressure to pay.
- The increased connectivity of Industrial Automated Controls Systems used to manage domestic, commercial and national infrastructure increases their vulnerability to a cyber attack.
- As a power utility operator, Centrica will be of interest to Nation State for commercial data and potential disruption.
- Beyond ransomware, Centrica's business will be a target for activities such as mandate fraud and fake invoicing.
- The Cyber risk climate is continually evolving and has the potential to deteriorate with increased breadth and volume of attacks. A deterioration has not yet crystallised but the Group remains on high alert.

Political and Regulatory Intervention

Risk Category: Strategic

Group Priority

Risk Climate

Stable

Risk of political or regulatory intervention and changes, or a failure to influence such changes.

- The Group faces uncertainty as to whether the Government will influence the price cap mechanism or impose a windfall tax to respond to soaring wholesale energy prices. This could result in profit margin erosion and/or damage to our reputation.
- There is uncertainty as to the timing and application of the SoLR levy process and the Special Administration Regime.
- Risk of further government intervention to support vulnerable customers that may not be funded through the price cap mechanism.
- Continuing focus on ESG interventions and impact on investor confidence in our responses.
- The Group faces potential erosion of profit margins through potential further FCA interventions on pricing impacting our UK Services business.

We continue to be committed to an open, transparent and competitive UK energy market which provides choice for consumers.

- Ongoing continuous engagement with policy makers to help form future regulatory requirements.
- Dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact and report to the Leadership Team via the monthly External Affairs meeting.
- Understanding the expectations of stakeholders through reputational surveys and review of media sentiment.

- The planned regulatory reform through the impending 'Energy Bill' will present significant medium-term opportunities and challenges for the Group.
- The Group is actively engaged and committed to influencing the shaping of the approach to the Green transition in the UK and responds to Government consultations on related policy.
- We will engage in further Government and regulator consultation on the future of the UK retail energy market.

Capability of People

Risk Category: Operational

FY 20: Capability of People, Process and Systems

Group Priority

Risk Climate: Stable

Overview

Risk of failure to attract and retain key talent. Deterioration to health and wellbeing of workforce.

- Failure to attract and retain key capabilities, and safeguard the health and wellbeing of the workforce across the business could have a detrimental impact on our ability to meet our strategic objectives.

Mitigations

- Extensive focus on rebuilding capabilities and providing targeted learning and development opportunities, improving capacity and implementing retention enhancement strategies.
- Talent management and planning forums reinstated.
- Continuous focus on our values and culture aligned to our purpose.
- Greater focus on diversity and inclusion at all levels of the organisation, and open access to colleague-led employee networks.

Developments

- BUs and functions have been closely monitoring the impact of the 2020 reorganisation and modernising of employee terms and conditions on knowledge and skills retention.
- Throughout the pandemic there have been increased direct employee communications from the CLT, with continued emphasis on wellbeing, mental health and ways of working, and the introduction of Flexible First to combine working at home with time on site. Pulse surveys are regularly completed to gauge employee sentiment and address concerns.
- Regular 'Straight Talking' sessions are conducted by senior management to identify the root causes of colleague engagement issues and rebuild trust.

Highly Competitive Markets

Risk Category: Strategic

Group Priority

Risk Climate: Stable

Overview

Risk that events in the external market or environment could hinder the delivery of our strategy.

- Successful delivery of our strategy requires helping our customers live sustainably, simply and affordably in a competitive marketplace, with increased focus on climate change, renewables and a move to lower carbon products and propositions.
- Pace of change is critical given competitive pressures, ability to right-size the cost base and take advantage of market opportunities.
- Driving transformation at pace creates additional delivery and technology risk through investment in markets which may not become material (i.e through uncertainty of net zero pathway).
- Increasing competition for sites for renewable development could prevent Centrica Energy Assets from establishing a foothold in the market.

Mitigations

- Significant focus on profitable growth and innovation across all BUs including customer retention in the downstream businesses. Focus on developing our products to respond to changing customer needs and sentiment.
- Regular review of organisational model to support delivery of strategic objectives.
- Transition to a lower cost platform is a significant step in addressing the challenge from rapidly scaling lower cost players.
- Regular review of skills and capability to sustain a strong ethically-minded and performance-focused culture.
- New asset strategy communicated with clear targets, close review of market fundamentals, competition and expected returns.

Developments

- Core markets continue to be highly competitive. Our response is to focus colleagues and technology on helping businesses and households to use energy more efficiently and sustainably.
- Continued disruption in the Energy supply market with potential further rationalisation of suppliers.
- Embedding the restructuring of our business allowing us to respond to our customers' needs more easily.
- Focus on becoming the most competitive supplier delivering cost efficiency through an agile new system.
- Training the next generation of apprentices to deliver low carbon technologies e.g. heat pumps and electric vehicle chargers, while exploring the future of hydrogen.
- Renewables market highly attractive, given increasing focus of governments and businesses in meeting net zero targets, level of competition rising to meet demand.

Climate Change

Risk Category: Strategic

Group Priority

Risk Climate: New Risk

Overview

Impact of Market, Regulatory and Policy changes affecting the Group.

- Increased pressure from Government, investors and customers to commit to meaningful carbon reduction targets.
- Execution of Centrica Business Solutions strategy to realise opportunities from the electrification of Energy and Transport industries.
- Timing and execution of British Gas pivot to decarbonised heating and power products and services.
- Increased focus on 'greenwashing' and greater rigour on Renewables Guarantee of Origin, impacting renewable products and propositions.

Mitigations

- People & Planet targets published in early 2021 include net zero targets for Centrica and our customers.
- Centrica's Climate Transition Plan published in October 2021 outlines our plans to move to a low carbon future.
- The SESC, which is chaired by an independent non-executive director, typically reviews climate change information three times a year. The SESC additionally maintains oversight over climate-related content and discuss as frequently as required at CLT meetings which are held monthly.
- We have committed to compliance with TCFD requirements, including climate change scenario analysis providing insight into the risks, opportunities and timing of change (see pages 33 to 35).

Developments

- COP 26 and focus on Corporate response to Climate Change.
- Sale of Spirit Energy Norway assets to decarbonise our asset strategy.
- UK 6th carbon budget adopted.
- UK government heat & buildings, Hydrogen and net zero strategies.
- Potential repurposing of Rough for hydrogen storage.
- Electrification of transport and new heating technologies, reallocating capital investment to realise opportunities from moving to a low carbon economy.

Legal, Regulatory & Ethical Compliance

Risk Category: Compliance

FY 20: Legal, Regulatory and Ethical Standards Compliance

Group Priority

Risk Climate

Stable

Risk of failure to comply with laws and regulations, and to behave ethically in line with Our Code, resulting in adverse reputational and/or financial impact.

- Any material real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business.
- Material or sustained non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal and/or regulatory action.

- The Board sets the tone from the top through Our Code and leadership behaviours.
- Regulatory compliance monitoring activities performed by dedicated teams to drive Group-wide consistency and quality.
- Control frameworks in place to deliver customer experience in line with requirements over sales compliance, billing, retentions, customer correspondence and complaints handling. These are regularly reviewed by relevant leadership teams through KPIs.
- The Financial Crime Team monitors threats throughout the business and adequacy of response to the threat of bribery and corruption.
- A global 'Speak Up' helpline exists to provide a consistent Group-wide approach to reporting unethical behaviour.
- Continuous dialogue with Ofgem and the FCA to influence the regulatory environment.

- Our approach to customer visits is continually reviewed to ensure that employees are operating in line with government guidelines and that the health and safety of employees and customers is maintained.
- The Our Code employee annual training for 2021 included expense fraud and information security dilemmas as part of a campaign to raise awareness of increased fraud risks.

Health, Safety, Environment: Process Loss of Containment

Risk Category: Operational

FY 20: Health, Safety, Environment: Process Containment

Group Priority

Risk Climate

Stable

Risk of an unplanned or uncontrolled release of any material from primary containment that could result in fatalities, injury and/or environmental damage resulting in legal claims, reputational and financial impacts.

- Our operations have the potential to result in personal or environmental harm.
- Significant HSE events could have regulatory, financial and reputational repercussions that would adversely affect some, or all, of our brands and businesses.

- Continued investment in training to ensure maintenance of safe operating practices.
- HSE Management Systems are established to include policies, standards and procedures to protect employees, third parties and our environment.
- Continuous engagement with regulatory agencies such as the Environment Agency, Oil and Gas Authority and UK Health and Safety Executive.
- Assurance over our HSE processes and controls provided by our in-house HSE teams supported by external subject matter experts where needed.

- Minimum manning levels continue to be assessed and contingency plans made for key assets (offshore and onshore) in light of COVID-19.
- Mitigations have been implemented to address potential operational issues from higher staff absence rates or staff contracting COVID-19.
- The HSE Function works with the business to ensure effective HSE resources and competency operate consistently and effectively across the business.

Assessment of Viability Disclosure

Requirement

In accordance with provision 31 of the 2018 UK Corporate Governance Code the Directors have assessed the prospects and viability of the Group taking into account the business model (as set out in the Strategic report on pages 12 to 13), current position in the context of liquidity and credit metrics of the Group, and principal risks.

Assessment of prospects

The assessment considers the current position of the Group, the Group's strategy, longer-term market trends and customer needs, and the Group's principal risks as well as forecast cash generation against long-term obligations to repay debt and fund the defined benefit pension schemes.

Our business model is designed to allow us to focus on meeting the changing energy supply, services and solutions needs of our customers, helping them transition to a lower carbon future while positioning ourselves to deliver returns for shareholders and meet our broader obligations to society over the long-term.

Key factors in assessing the long term prospects of the Group include the following:

1. The Group's competitive position today
Centrica has strong brands with large customer bases as the number one supplier in many of the markets in which it operates. In its core markets: British Gas Energy and British Gas Services are the largest residential energy supplier and home services provider in the UK; Bord Gáis is the second largest residential energy supplier in Ireland; and Centrica's Energy Marketing & Trading business is a leading route to market services provider across Europe. Centrica also has the largest heating engineering workforce in the country who are highly trusted by our customers, and are well-positioned to continue to support new fuels and technologies

In assessing our prospects beyond the strategic planning period, the Board considers how these strengths position the company to grow long-term shareholder value.

2. Market trends affecting future prospects
- The current commodity price volatility and its impact on the UK energy supply market.
- Increasing progress and Government support for net zero, corporates committing to clear net zero targets.
- Despite recent competitor supplier failures, competition may remain intense with margins under pressure, and we expect that to remain the case as the market emerges from the current crisis. However, due to the way Centrica forward hedges its commodity requirements we are not as exposed to volatile market prices as other recently failed suppliers.
- Falling costs for battery, solar and wind, electric vehicles deployment accelerates, growing need for flexibility.
- Role of data analytics, artificial Intelligence and automation increasingly important.

3. Customer needs
- Hassle-free, empathetic, personalised and safe service. Offering solutions, not just products.
- Responsible options (including green tariffs) and expert guidance to help them achieve their net zero goals.
- Trusted and credible counterparty.
- Lower costs and greater efficiency.

We put customers' needs at the centre of everything we do and this is the core part of our strategy, as set out in the People and Planet and Strategic Report sections of this Annual Report on pages 7, 10 to 12 and 36 respectively.

4. The Group's strategic objectives
The Group's strategic purpose include sustainability, simplicity and affordability, as set out on page 6 of this Annual Report. These support the assessment of the Group's prospects.

5. Principal risks facing the Group, as set out on pages 38 to 43
The risks we consider to be of greatest significance in assessing our prospects include:
- Further political or regulatory intervention, including increased focus on Environment, Social and Governance interventions, responding to climate change and uncertainty as to whether the Government will influence the price cap mechanism to respond to soaring wholesale energy prices;
- External risks associated with COVID-19, weather and commodity price movements;
- Highly competitive markets;
- Compromised asset production and HSE impacts of process loss of containment; and
- Risks associated with the effectiveness of our internal control environment in relation to cyber risk, data protection and customer conduct.

A more detailed summary of the business strategy is provided in the Strategic report on pages 10 to 11 and more detail on the principal risks facing the Group on pages 38 to 43.

Climate change is the most important driver guiding Centrica's prospects today and is a core part of our purpose as reflected by the actions we've taken, which include:

- We've outlined our plans for how we intend to decarbonise power, heat and transport through our Climate Transition Plan published in October 2021.
- We will continue to build out our green supply and solutions offerings for customers.
- We're training the next generation of apprentices to deliver low carbon technologies like heat pumps and electric vehicle chargers while exploring the future of hydrogen.
- We're committed to creating additional green and transition generation with up to £500 million to deploy through Centrica Energy Assets in renewable and flexible assets by 2025.

Good progress has been made on managing the prospects of the Group during 2021, including the completion of the Direct Energy sale in January, the announced sale of Spirit Norway and the delivery of the Group restructuring activity, which has simplified our management structure, reduced management layers and increased the proportion of our colleagues who interact directly with customers enabling us to put customers at the heart of everything we do. In addition, our balance sheet is now much stronger, with a net cash position as of 31 December 2021.

The Board has confidence in the long-term prospects of the business. The Board believe that the strategic steps taken in 2021, and the Group's strategy and purpose will set the Group up to be successful in the long term as market trends continue to evolve and key risks are managed.

Viability Sensitivity Tests Assessed	Links to Principal Risks	Risk >5% of opening headroom(1)?
A. External risks associated with a reduction in commodity price down to historic price levels	• Financial Markets Commodity Risk • Highly Competitive Markets	Yes
B. Risk of higher bad debt due to the large increase in the UK price cap in 2022 and from further economic disruption to customers from COVID-19, and the operational impact of further COVID restrictions	• Political and Regulatory Intervention • Highly Competitive Markets	No
C. Regulatory risks in relation to loss of sensitive data, and the operational impact of sustained employee industrial action.	• Legal, Regulatory & Ethical Compliance • Political and Regulatory Intervention • Highly Competitive Markets • Cyber Risk • Capability of People,	No
D. Significant disruption to the asset-based business leading to loss of production and/or earnings	• Asset Production • Health, Safety, Environment: Process Containment Event	Yes
E. The risk of significant adverse weather	• Financial Markets Weather Risk	No
F. Increased margin cash requirements arising from adverse market conditions	• Financial Markets Commodity Risk	No
G. Removal of 25% of drawn uncommitted Letters of Credit	• Financial Markets Weather Risk • Financial Markets Commodity Risk • Asset Production • Cyber Risk • Political and Regulatory Intervention • Highly Competitive Markets	No
H. Increased collateral requirements arising from a single-notch credit rating downgrade	• Financial Markets Weather Risk • Financial Markets Commodity Risk • Asset Production • Cyber Risk • Political and Regulatory Intervention • Highly Competitive Markets	Yes

(1) Headroom is calculated as undrawn committed facilities plus total liquid resources.

Assessment of viability

The assessment is based upon the Group Annual Plan for 2022 and the longer-term strategic forecast for 2023 and 2024 which are approved annually by the Board. The Board continues to believe that a three-year time horizon is the appropriate timeframe to assess viability, and is also consistent with the Group's planning cycle and the period of reasonable visibility in the energy markets. The Group's focus on the energy supply and services businesses means the most significant risks continue to be shorter-term in nature including asset performance, commodity prices, weather and competitive pressures creating disruption in our customer-facing markets.

Important context to the viability assessment is the management of the Group's financing profile through accessing a diverse source of term funding and maintaining access to carefully assessed levels of standby liquidity which support the Group's planned financial commitments. As at 31 December 2021, the Group had total committed credit facilities of £4.8 billion, of which £0.4 billion expires in 2024 and the remaining £4.4 billion expire in 2025. The undrawn committed facilities as at 31 December 2021 were £3.0 billion in addition to total liquid resources of £3.6 billion.

On 8 December 2021, the sale of Spirit Norway (including Statfjord UK) was announced. This transaction will improve the Group viability assessment through removal of the risks associated with this part of the business, and is factored in to the viability assessment conducted.

The viability assessment identifies eight sensitivities (A to H) shown in the table above, which incorporate the impact of our principal risks as set out on pages 40 to 43. These risks were selected as they have the most material impact on cash flow and liquidity. These sensitivities were applied to the baseline financial forecast which uses the Group Annual Plan for 2022 and the longer-term strategic forecast for 2023 and 2024.

The key assumptions made in the specific sensitivities include:

- Historical evidence and the evaluation of similar events observed in the market have been used to inform the potential impact of modelled scenarios;
- The recent increase in gas and power prices has also been reflected in the commodity price sensitivity. In previous years a 30% reduction to the base forecast has been used, but to reflect the particularly high price curve in 2022 we have modelled a 60% stress to 2022 (which equates to gas at 52p/th and power at £55/MWh). We have retained a 30% stress to 2023/24 as those prices have not increased as much as the nearer time period (equating to gas at 44p/th in 2023 and 37p/th in 2024, and power at £46/MWh in 2023 and £43/MWh in 2024). Oil prices have not been as volatile, therefore the 30% reduction has been retained (equating to $55/bbl, $45/bbl and $43/bbl in 2022, 2023 and 2024 respectively) (Sensitivity A);
- A sustained loss of production from one of the highest producing oil and gas fields (Sensitivity D);
- A repeat of historically seen adverse UK weather resulting in the need to purchase additional power and gas at higher prices which cannot be fully recovered through customer billing (Sensitivity E);
- There would be some offset between Sensitivity A and Sensitivity E, because in a low price environment weather would have a smaller impact.

Further Group-wide assumptions include:

- No material acquisitions or disposals of Group business areas, other than the disposal of Spirit Norway which was announced on 8 December 2021.
- No new debt funding within the three-year period of the assessment.
- The Group retains its existing credit ratings (BBB/Baa2) during the three-year period of the assessment, although the impact of a one-notch reduction is modelled in our sensitivity tests.

The risk of further impacts of COVID-19 has been modelled, due to the ongoing uncertainty over new variants of the virus. An impact similar to that seen in the first wave of the pandemic in H1 2020 has been modelled, where lockdown restrictions impacted our services and solutions activity. This risk models the impact of engineer absence through either sickness or self-isolation and reduced customer appetite for in-home visits which would result in a drop in services and solutions activity to the same extent as seen in 2020.

In Sensitivity B, in addition to the COVID-19 economic impact, we have also considered the impact of the expected price cap increase, which raises the risk of many more customers falling into fuel poverty, which in turn could lead to higher levels of customer bad debt, which has been modelled to be the same impact as seen in 2020.

The eight sensitivities have been grouped into three scenarios as set out in the table below. It is not plausible that all eight sensitivities would occur at the same time, and therefore each of the three scenarios is considered as a plausible combination of the above sensitivities. Within these scenarios, commodity (sensitivity A), bad debt and operational COVID-19 risks (sensitivity B), and risks relating to credit rating, collateral and liquidity (sensitivities F, G and H) were selected as constant events in all three scenarios.

Sensitivities grouped into three scenarios	
Scenario 1: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with a regulatory/industrial event and additional debt and liquidity risks	A + B + C + F + G + H
Scenario 2: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with a significant disruption to the asset-based businesses, and additional debt and liquidity risks	A + B + D + F + G + H
Scenario 3: A significant external event outside the Group's control such as a significant and sustained reduction in commodity price, increased bad debt, continuation of COVID-19 restrictions throughout 2022, along with adverse weather impacts affecting the energy supply businesses, and additional debt and liquidity risks	A + B + E + F + G + H

The scenarios have been assessed to confirm whether the Group would have sufficient liquidity available to meet its future planned financial commitments against its existing undrawn committed credit facilities of £3.0 billion, and that the credit metrics calculated would not imply a sustained fall to below investment grade (S&P BB and Moody's Ba1 NP).

In order to reach a conclusion as to the Group's viability, the Directors have considered the following:

- The Directors considered whether any of the scenarios breached the available headroom in the three-year period and concluded that sufficient headroom was available in all scenarios.
- The Directors considered whether any of the scenarios indicated a deterioration in the credit rating metrics which would lead to a two notch downgrade to sub-investment grade. They concluded that the Group has a reasonable expectation that its net debt ratios would continue to sustainably support investment grade ratings (at least BBB- for S&P, and at least Baa3 for Moody's) for all scenarios.

While mitigations were not required in any of the above scenarios to ensure the Group was viable, additional mitigations could be deployed to increase headroom and reduce the risk of a credit downgrade, including reductions in operational and capital expenditure.

Reverse stress testing has also been performed to identify and analyse the circumstances under which the Group's business model would no longer be viable. Examples considered, all occurring simultaneously, included further sustained low commodity prices significantly beyond the level assumed in the severe but plausible viability scenario, a two notch credit rating downgrade to sub investment levels, business underperformance, further upstream asset production issues, a GDPR fine levied at 2% of global annual revenue and liquidity funding events.

The reverse stress test models all of these scenarios occurring to an extreme extent and at the same time. Even after applying these additional stresses, there was still headroom available in 2022 and 2023. Should all modelled events occur at maximum foreseeable severity, the headroom would then be fully utilised in 2024. However, the combined severity and extent of these modelled events far exceeds any impacts that have historically been experienced by the Group. In addition, the exposure related to a double notch credit rating downgrade has been modelled on the current high price environment. If prices were to drop significantly, the exposure would be much lower. As such, the likelihood of all events occurring concurrently, and at the severity modelled, is judged to be very remote.

Conclusion

The Directors have considered all the above factors in their assessment of viability, including the availability of mitigating actions within their control in the event that one of the scenarios above materialises. We have performed sensitivity analysis that enables the Directors to confirm that they have a reasonable expectation of the Group's ability to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved by the Board and signed on its behalf by:

Raj Roy
Group General Counsel & Company Secretary
23 February 2022

Governance

Directors' and Corporate Governance Report

Dear Shareholder

I am pleased to introduce the Directors' and Corporate Governance Report for 2021. This report describes the activities of the Board during the year, along with Centrica's governance arrangements.

This year, the Board has focused on: ensuring the health and safety of our colleagues and customers; delivering value in the supply of heat and light to our customers in challenging market conditions; accelerating Centrica's actions and commitments to achieving net zero; maintaining robust corporate governance practices; and enhancing value for stakeholders. This report describes our governance framework; the composition and operation of the Board and its Committees; and how the Board discharged its responsibilities, including the application of the relevant provisions of the UK Corporate Governance Code (UK Code) (details of our compliance with the UK Code can be found on page 55 and our application of the UK Code on page 60).

The year in review

2021 has been a challenging time for the industry. We saw the collapse of many of the UK's retail energy suppliers and the recapitalisation of one very large energy supplier. In spite of the challenges, the Board continues to drive the Company's strategy forward and deliver value for the long-term benefit of the Company.

Working closely with the executive team, the Board and the Company have been focused on delivering value to customers, while making strides to deliver net zero by 2045 and support customers in making the transition to net zero by 2050 at the latest. As the largest energy services and solutions company in the UK and Ireland, we have an opportunity to reshape our future to one that is more sustainable, yet affordable for our customers. Our Climate Transition Plan available at centrica.com/climatetransition, outlines how we propose to achieve this.

We announced on 30 July 2019 our intention to exit Exploration and Production activity (E&P) and focus on our customer-facing businesses. On 8 December 2021, we announced the proposed sale of Spirit Energy's Norway and Statfjord UK asset. The Board believes this is an important step towards the decarbonisation of the Group and will continue to assess opportunities to exit from our remaining E&P activities.

Governance and culture

The Board plays a critical role in defining the right culture for the Group, by setting the tone from the top and monitoring how the Group's culture and values are communicated, lived and evolve. Our enduring values at Centrica underpin our culture. While priorities may change the values are firmly embedded in who we are and give direction to everything we do. They are aspirational and allows us to focus on delivering our purposes: being sustainable, simple and affordable for our customers. They create a shared understanding of what we think is important to deliver success.

As a Board, we remain committed to high standards of corporate governance and compliance. We believe that these practices are fundamental to driving the long-term success of the Company and value creation for our stakeholders. I am grateful for the support and guidance of the members of the Board, whose diverse backgrounds, skills and experience have enabled us to deliver some outstanding achievements in difficult times.

We are pleased with the work undertaken by the Centrica Leadership Team (CLT) to develop the Company's culture (details can be found on pages 26 to 36 of the Strategic Report). The report from the engagement undertaken by the CLT is directly fed to the Board at the subsequent Board meeting. An example are the results from 'Our Voice' quarterly engagement survey, which provides the Board with insight into the tone of the culture. Further information about the survey and the improvement in colleague engagement can be found on pages 4, 15 and 26 to 27 and 36. The Board will continue to focus on the development of the Company's culture, which includes people development and digital enablement, to ensure Centrica is prepared for the future.

Throughout the year, the Board reflected on and developed its understanding of the Company's culture, thereby ensuring that we continue to strengthen the trust and confidence of our stakeholders as our culture evolves in line with our commitment to care for our people, planet and communities, all of which matters to our shareholders and stakeholders. Our Code, which reflects our culture, sets out our minimum expectations for all those we work with or alongside. It is a guide to making good choices and represents our commitment to doing the right thing and act with integrity. Information on our Code can be found in our People and Planet section on pages 36 and 37.

Board changes

As stated in last year's report, during the financial year, for personal reasons, Johnathan Ford stepped down from his role as Group Chief Financial Officer and from the Board on 18 January 2021 and resigned from the Company on 31 January 2021. Following recommendation by the Nominations Committee, the Board was pleased to approve the appointment of Kate Ringrose as Group Chief Financial Officer and Executive Director on 18 January 2021. Kate has been with Centrica since 2005, latterly in the position of Group Financial Controller, and brings a wealth of experience from a wide range of finance roles across Centrica. Additionally, Joan Gillman stepped down from the Board on 8 February 2021.

In January 2022, the Company appointed Amber Rudd as a Non-Executive Director. Also, in January, the Company announced that Stephen Hester, Senior Independent Director and a member of the Company's Audit & Risk, Nominations and Remuneration Committees, has notified the Board of his intention not to stand for re-election as a Non-Executive Director at Centrica's Annual General Meeting later this year having served six years on the Company's Board. On behalf of the Board, I would like to thank Stephen for his service to the Company over the last six years.

Further information about Board changes is provided on page 69.

Board and Committee evaluation and effectiveness

The 2021 Board evaluation, an external review, was conducted in conjunction with Independent Board Evaluation, led by me, as Chairman, and supported by the Group General Counsel & Company Secretary. Directors and certain senior executives were invited to complete questionnaires. The formal and rigorous evaluation process reviews the performance of the individual Board members, time commitment, performance and ability to continue to contribute to the Board taking account of the knowledge, skills and experience required. The results of the evaluation process were discussed by the Nominations Committee and the Board.

Further information about the 2021 Board and Committee evaluation process, including the outcome of the evaluation and the Board and Committee effectiveness is provided on page 58.

Responding to the COVID-19 pandemic and the energy crisis

The Board met more frequently than usual during the year to focus on the business response to the energy crisis and, where appropriate, to monitor the response to the COVID-19 pandemic. As the UK saw many retail energy suppliers cease trading, the Board focused on Centrica's response to meeting and serving customers' needs while protecting our business.

To ensure the safety of our colleagues, where appropriate, Board meetings were held virtually or with hybrid options where in-person meetings were possible. The Board continues to operate effectively in this way. Our commitment to supporting high standards of corporate governance and our strong governance framework enabled the Board to adjust its focus and priorities and take some important decisions to strengthen our balance sheet and protect the Company from the difficult market environment arising from the COVID-19 pandemic and energy crisis. Examples of principal decisions taken by the Board can be found in the Section 172 statement on pages 56 to 57.

Engagement with our stakeholders

By listening to, and collaborating with, our stakeholders we believe we can grow the business and deliver improvements for our customers and society over the long term. During 2021, together with the Group Chief Executive and Group Chief Financial Officer, we met regularly, and often remotely, with major shareholders, in order to update them and obtain their perspectives on performance, strategy and Environmental, Social and Governance matters.

To enhance the level of engagement with our colleagues, the Board sponsored setting up a Shadow Board. The Shadow Board is a unique partnership with the CLT to provide impartial and diverse insight, review, and assurance on strategic topics relating to colleagues, customers, and cash and to ensure Our Values and standards are upheld. Through the Shadow Board, colleagues will be able to influence decisions, positively disrupt assumptions, and challenge our Executives' thinking, to support customer-focused and colleague-centred decision-making in the Boardroom. The CLT in return act as mentors to the Shadow Board and offer support through the Senior Leadership Teams.

The Board's current approach regarding colleague engagement is one of shared responsibility amongst Board members. The Board considers that there is benefit from all of the Board being involved in colleague engagement activities, particularly in an environment of face-to-face activity becoming more possible prospectively with the easing of COVID-19 restrictions. This approach to colleague engagement will remain under ongoing review to ensure it is effective.

Further details of our methods of engagement with our colleagues and other stakeholders are provided on page 9. How the Board has sought to discharge its duties under Section 172 of the Companies Act 2006 during the year, including in relation to the COVID-19 pandemic, the energy crisis and its engagement with stakeholders, is covered in more detail in our Section 172 statement on page 8, 56 and 57 and Stakeholder Engagement section on pages 8 to 9.

Diversity and inclusion

Diversity and inclusion continues to be a top priority of the Board, and the Company remains committed to putting diversity, inclusion, care and respect at the heart of what we do. The Company operates a diversity and inclusion policy at Board level and a Group diversity and inclusion policy which applies to the Company's administrative, management and supervisory bodies. Further information about the Board diversity and inclusion policy and our Group diversity and inclusion policy, including how it is implemented, can be found at centrica.com/policies.

In line with our People & Planet Plan we are working to ensure that all Company and senior leaders represent the full diversity of our communities. We strive for greater representation targeted across gender, ethnicity, disability and sexuality which is more in line with Census data for working populations, as well as creating a culture where everyone can be themselves and achieve their full potential irrespective of their age, gender, culture, race, religion, sexual orientation, disability or background. Read more on pages 28 to 31 for further information about how we are progressing with our goals.

We have, and are, making positive changes to the way we attract, promote and develop diverse talent across the business. We will remain committed to reporting on our progress, including closing our gender and ethnicity pay gaps. We will continue to report the diversity of all colleagues, alongside our existing focus on gender and ethnicity pay gaps.

Conclusion

The Directors' and Corporate Governance Report which follows has been prepared to provide stakeholders with a comprehensive explanation of the Company's governance framework under the UK Corporate Governance Code 2018, the Companies Act 2006, the UK Listing Rules and the Disclosure Guidance and Transparency Rules.

Scott Wheway
Chairman
23 February 2022

Board of Directors*

Scott Wheway
Chairman

C NC SC

Scott joined the Board on 1 May 2016 and became Chairman of the Board on 17 March 2020.

Relevant skills and experience
Scott has a wealth of experience as a senior customer-facing business leader with a mix of deep retail and consumer expertise. He has considerable knowledge gained in both the retail and insurance sectors, together with a strong understanding of operating within highly regulated businesses.

Previous experience
Scott worked in retail for 27 years both in the UK and internationally. He is the former chief executive officer of Best Buy Europe (retail services), director of The Boots Company plc, managing director and retail director of Boots the Chemist at Alliance Boots plc and a director of the British Retail Consortium. He formerly held a number of senior executive positions at Tesco plc (retail services), including chief executive of Tesco in Japan, served as non-executive director of Aviva plc until December 2016, and as the senior independent director of Santander UK plc until 30 September 2020.

External appointments
Chairman of AXA UK plc.

Chris O'Shea
Group Chief Executive

DC

Chris joined Centrica in 2018 as Group Chief Financial Officer and was appointed as Group Chief Executive on 14 April 2020. Chris is also Chair of the Disclosure Committee and Chairman of Spirit Energy.

Relevant skills and experience
Chris is an experienced listed company executive with considerable experience of complex, multi-national organisations, not only in the energy sector but also in technology-led engineering and services industries.

Previous experience
Chris was appointed Group Chief Executive in early 2020 having previously been Group Chief Financial Officer. Prior to joining Centrica, Chris was group chief financial officer of UK listed Smiths Group plc and Vesuvius plc, and a non-executive director of Indian listed Foseco India Ltd. From 2006 to 2012 Chris held various senior finance roles with BG Group plc, including chief financial officer of Africa Middle East & Asia and Europe & Central Asia, prior to which he held a number of senior roles with Shell living and working in the UK, the US and Nigeria, and with Ernst & Young. Chris studied Accounting and Finance at the University of Glasgow, is a Chartered Accountant, and holds an MBA from the Fuqua School of Business at Duke University.

External appointments
None.

Kate Ringrose
Group Chief Financial Officer

DC

Kate joined Centrica in 2005 and was appointed as Group Chief Financial Officer on 18 January 2021.

Relevant skills and experience
Kate's most recent role was Group Financial Controller, and she has also held a wide variety of positions across the Group, including in Centrica's energy supply, services, solutions and trading businesses, and in finance operations.

Previous experience
Prior to joining Centrica, Kate qualified as a chartered accountant with KPMG South Africa, before moving to the UK, and rejoining the KPMG London office. Kate was also Non-Executive Director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

External appointments
None.

Carol Arrowsmith
Non-Executive
Director

AC NC RC

Carol joined the Board on 11 June 2020.

Relevant skills and experience

Carol brings extensive advisory experience, especially of advising boards on executive remuneration across a range of sectors, and is a Fellow of the Chartered Institute of Personnel and Development.

Previous experience

Carol is a former Deputy Chair and Senior Partner of Deloitte LLP. She was a member of the Advisory Group for Spencer Stuart, Global Partner of Arthur Andersen and Managing Director of New Bridge Street Consultants.

External appointments

Non-executive director of Compass Group Plc and non-executive director of Vivo Energy Plc, director and trustee of Northern Ballet Limited.

Stephen Hester
Senior
Independent
Director

AC NC RC

Stephen joined the Board on 1 June 2016.

Relevant skills and experience

Stephen has wide-ranging experience, particularly in customer-facing businesses, together with recognised expertise in transforming business performance. He has a deep knowledge of operating within highly regulated businesses with over 35 years' experience in financial services and within FTSE 100 companies.

Previous experience

Stephen previously held positions as chief executive of RSA Insurance Group plc, chief executive of Royal Bank of Scotland Group, chief executive of British Land plc and chief operating officer of Abbey National plc, as well as a number of senior executive roles at Credit Suisse First Boston in London and New York.

External appointments

Chair of easyJet plc and lead independent director of Kyndryl Holdings, Inc.

Committee membership key

- C Chairman of the Board
- AC Audit and Risk Committee
- DC Disclosure Committee
- NC Nominations Committee
- RC Remuneration Committee
- SC Safety, Environment and Sustainability Committee
- Denotes Committee Chairman

Skills and experience key

- Consumer Services
- Energy Sector
- Engineering/Safety
- Finance/M&A
- Financial Services
- Government/Regulatory
- Technology

*as at 23 February 2022

Pam Kaur
Non-Executive Director

AC NC SC

Pam joined the Board on 1 February 2019.

Relevant skills and experience
Pam has extensive experience in audit, business, compliance, finance and risk management.

Previous experience
Pam has previously held various senior roles at global financial institutions including Citigroup, Lloyds TSB, the Royal Bank of Scotland and Deutsche Bank, and has worked with regulators and supervisory boards across the world. She has an MBA in finance and a BCom (Hons) from Panjab University in India and is a qualified chartered accountant.

External appointments
Group chief risk and compliance officer at HSBC Holdings plc.

Heidi Mottram
Non-Executive Director

NC RC SC

Heidi joined the Board on 1 January 2020.

Relevant skills and experience
Heidi brings considerable relevant strategic and operational experience acquired in her current and previous roles. Her deep understanding of the importance of customer service, delivered in complex, multi-stakeholder environments with a high public profile, is particularly pertinent to the Company at this time, as it focuses on the delivery of its customer-centric strategy.

Previous experience
Heidi began her career with British Rail in the mid-1980s. She held a number of roles in GNER, before joining Midland Mainline in 1999 as operations director. She was commercial director for Arriva Trains Northern from January 2004, becoming managing director of Northern Rail Limited, the UK's largest rail franchise.

External appointments
CEO of Northumbrian Water Limited and Northumbrian Water Group Limited. Vice-Chair of the North East Local Enterprise Partnership, and Vice-Chair of Newcastle University Council.

Kevin O'Byrne
Non-Executive Director

AC NC

Kevin joined the Board on 13 May 2019.

Relevant skills and experience
Kevin brings extensive retail and finance experience to the Board, having occupied senior roles in a number of leading UK and international retailers. The Board considers that Kevin has recent and relevant financial experience.

Previous experience
Kevin was previously chief executive officer of Poundland Group plc, and held executive roles at Kingfisher plc, including divisional director UK, China and Turkey, chief executive officer of B&Q UK & Ireland and group finance director. Prior to that he was finance director of Dixons Retail plc. From 2008 to 2017 he was a non-executive director and chairman of the audit committee of Land Securities Group PLC where he was also senior independent director from 2012 to 2016.

External appointments
Group chief financial officer of J Sainsbury plc.

Rt Hon. Amber Rudd
Non-Executive Director

RC SC

Amber joined the Board on 10 January 2022.

Relevant skills and experience
Amber brings a wealth of experience in energy, policy and business.

Previous experience
After around 20 years working in business, Amber served as a Member of Parliament between 2010 and 2019. In addition to holding the roles of Home Secretary, Secretary of State for Work and Pensions and Minister for Women and Equalities, Amber served as Secretary of State for Energy and Climate Change from 2015 to 2016 after having been Parliamentary Under Secretary of State at the Department of Energy and Climate Change from July 2014 until May 2015. Amber led the UK team to the successful completion of the Paris Climate Change Agreement. This UN sponsored 2015 Conference of the Parties (COP 21) achieved a landmark global commitment to reduce national carbon emissions.

External appointments
Amber is a non-executive director of Pinwheel. Amber also acts as an advisor to businesses including Equinor, Darktrace, Finsbury Glover Hering, Island Green Power, Centreview Partners and Phoenix Group. Amber is a trustee of The Climate Group, RUSI and Action Against Gambling Harms.

Raj Roy
Group General Counsel & Company Secretary

DC

Raj was appointed Group General Counsel & Company Secretary on 3 March 2021 having been appointed Interim Group General Counsel & Company Secretary with effect from 1 October 2020.

Relevant skills and experience
Raj has overall responsibility for legal, regulatory, compliance and secretariat activities across the Group, the effective operating of Centrica plc's Board and advising on key issues of corporate governance and compliance. Raj joined Centrica in 2014 as the Legal Director for Residential Energy, before becoming General Counsel for the UK and Ireland region in 2017. He has led legal, regulatory and compliance teams at Centrica in various formations across the UK and Ireland region and the Consumer division.

Previous experience
Prior to joining Centrica, Raj spent 9 years at Vodafone, holding a number of senior in-house legal roles in the Group and UK legal functions. Raj started his career in private practice, qualifying as a solicitor at Slaughter and May in London and subsequently working for Freshfields in Brussels.

External appointments
None.

The Board considers that each of the Directors continues to contribute effectively to the work and deliberations of the Board.

Reasons for the (re-)election of each of our Directors at the forthcoming AGM can be found within the Centrica plc Notice of Annual General Meeting 2022 which will be made available on our website centrica.com/agm22.

Full biographies can be found at centrica.com/board

Committee membership key

- C Chairman of the Board
- AC Audit and Risk Committee
- DC Disclosure Committee
- NC Nominations Committee
- RC Remuneration Committee
- SC Safety, Environment and Sustainability Committee
- Denotes Committee Chairman

Skills and experience key

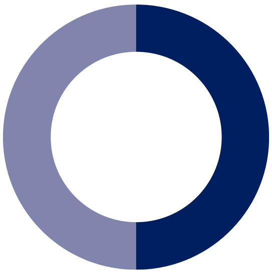
- Consumer Services
- Energy Sector
- Engineering/Safety
- Finance/M&A
- Financial Services
- Government/Regulatory
- Technology

*as at 23 February 2022

Board Diversity and Meeting Attendance

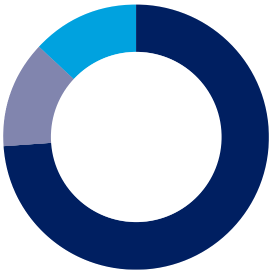
Board diversity as at 31 December 2021*

By gender



Male	50%
Female	50%

By nationality

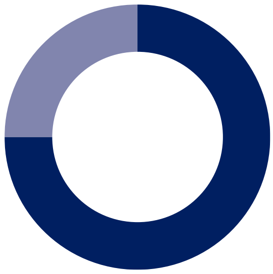


British	74%
Irish	13%
South African	13%

By ethnicity

White British	63%
White Irish	13%
White South African	13%
British Indian	13%

By tenure



0-3 years	75%
4-6 years	25%

During 2021, the Company exceeded the Hampton-Alexander target of 33% female representation on the Board (with 50% being female) and met the Parker Review target of at least one director being from an ethnic minority background.

*Following the appointment of Amber Rudd in January 2022, the data as at 23 February 2022 is:
(i) by gender: Male: 44%, Female: 56%;
(ii) by nationality: British: 78%, Irish: 11%, South African: 11%;
(iii) by ethnicity: White British: 67%, White Irish: 11%, White South African: 11%, British Indian: 11%
(iv) by tenure: 0-3 years: 78 %, 4-6 years: 22%

Read more about Board diversity on Page 69

Board and Committee meeting attendance during 2021[1]:

Name	Role	Joined the Board	Tenure[2]	Nationality	Gender/ identity	Board	AC	NC	RC	SC
Scott Wheway	Chairman	01/05/2016	5 years, 8 months	British	M	13	N/A	4	8	3
Chris O'Shea	Group Chief Executive	01/11/2018	3 years, 2 months	British	M	13	N/A	N/A	N/A	N/A
Kate Ringrose	Group Chief Financial Officer	18/01/2021	0 years, 11 months	South African, British	F	12	N/A	N/A	N/A	N/A
Carol Arrowsmith	Independent Non-Executive Director	11/06/2020	1 years, 7 months	British	F	13	4	4	8	N/A
Stephen Hester	Senior Independent Director	01/06/2016	5 years, 7 months	British	M	13	4	4	8	N/A
Pam Kaur	Independent Non-Executive Director	01/02/2019	2 years, 11 months	British	F	12	4	4	N/A	3
Heidi Mottram	Independent Non-Executive Director	01/01/2020	2 years, 0 months	British	F	12	N/A	4	8	3
Kevin O'Byrne	Independent Non-Executive Director	13/05/2019	2 years, 7 months	Irish	M	13	4	4	N/A	3

(1) Any Director who is unable to attend a Board meeting provides feedback to the Chairman on the matters to be discussed in advance of the meeting.
(2) Data as at 31 December 2021.

Corporate Governance Statement

The Board is committed to high standards of corporate governance and is pleased to confirm that throughout the year ended 31 December 2021, the Company has, with the exception of provisions 40 and 41 of the UK Corporate Governance Code (UK Code), complied with all other relevant provisions of the UK Code. Further details explaining our non-compliance with provisions 40 and 41 can be found on page 92. The UK Code and associated guidance are available on the Financial Reporting Council's website at frc.org.uk.

The index on page 96 sets out where to find each of the required disclosures in respect of Listing Rule 9.8.4 and Disclosure Guidance and Transparency Rules 4.1.5R and 7.2.1.

Governance framework

In order to facilitate its oversight role, and to ensure that it retains decision-making power over matters considered to be material to the current or future financial performance of the Group, the Board has put in place the governance framework to support the creation of long-term value for stakeholders. This is achieved through a schedule of matters reserved for the Board. In order to allow the Board to focus on its priorities, a number of its oversight responsibilities have been delegated to four principal committees. These responsibilities are set out in the terms of reference for each committee. The Board regularly reviews the remit, authority, composition and terms of reference of each committee.

The Board has also delegated authority to the Group Chief Executive for the execution of the strategy and day-to-day management of the Group. The Centrica Leadership Team (CLT) supports the Group Chief Executive in the performance of his duties. The Board oversees, challenges and supports executive management in the execution of the strategy and management of the Group.

Our Board

The Role of the Board

The Centrica Board is collectively responsible for corporate governance, developing strategy and major policies, reviewing management performance, approving financials and for providing entrepreneurial leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. It is also responsible for setting the Company's culture, values and the behaviours it wishes to promote in conducting its business. The Board's role and responsibilities are reviewed against the UK Code to ensure that it is meeting all of its responsibilities.

Matters reserved exclusively for the Board

There are certain key responsibilities that the Board does not delegate, and which are reserved for its consideration. The Board's responsibilities include: the development of strategy; acquisition and divestment policy; the approval of major capital expenditure; the Group's capital structure; the consideration of significant financing matters; and oversight and independent assurance of policies and procedures. The full schedule of matters reserved is available on the governance page of our website centrica.com.

Board composition and roles

The Board comprised of the Non-Executive Chairman (independent on appointment), two Executive Directors (Group Chief Executive and Group Chief Financial Officer), and five Independent Non-Executive Directors, increasing to six Independent Non-Executive Directors following the appointment of Amber Rudd in January 2022. A list of our Directors' biographies can be found on pages 50 to 53.

There is a clear division of responsibilities between the Chairman and Group Chief Executive, reflected in the schedule of matters reserved for the Board.

The Chairman is responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards, ensuring the effective contribution of all Directors and, with support from the Group General Counsel & Company Secretary, best practice in corporate governance and ensuring that Directors receive accurate, timely and clear information.

The Group Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.

The Group Chief Financial Officer is responsible for providing strategic financial leadership to the Company and for the day-to-day management of the finance function.

Independent Non-Executive Directors are responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure.

The Senior Independent Director acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors, as well as shareholders, as required.

The Group General Counsel & Company Secretary advises the Chairman and the Board on matters of corporate governance, induction, training and the efficient management of Board and Committee meetings, with responsibility for ensuring the effectiveness of the Company's governance framework. The Board relies on the Group General Counsel & Company Secretary for facilitating the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board Committees

In keeping with best practice, our Board oversees the Group's operations through a unitary Board and four separate principal Committees – Audit and Risk Committee, Nominations Committee, Remuneration Committee, and Safety, Environment and Sustainability Committee (SESC).

The terms of reference of these Committees can be found on our website. The Committee reports can be found on pages 61 to 94. Attendance at Committee meetings in 2021 can be found on page 54.

Board meetings

The Board held 13 formal meetings in 2021. In addition, supplementary meetings were called for specific approvals. The table showing the attendance of Directors at Board meetings in 2021 can be found on page 54. If Directors are unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Chairman.

The agendas for Board meetings are agreed in advance by the Chairman, Group Chief Executive and Group General Counsel & Company Secretary. The agenda typically consists of regular standing items, such as reports on financial performance, and in-depth examination or analysis of a topic, facilitating exchanges of views and robust debate.

During the year, the Non-Executive Directors, including the Chairman, met frequently without management present. The Non-Executive Directors met once during the year without the Chairman present.

Board activity including Section 172(1) considerations

During the year, the Board considers a comprehensive programme of regular matters covering operational and financial performance reporting, strategic reviews and updates, and various governance reports and approvals. In addition, Board meetings regularly feature in-depth reviews of specific topics. The Directors confirm that the deliberations of the Board, which underpin its decisions, incorporated appropriate consideration with due regard to the matters detailed in Section 172 of the Companies Act 2006.

In 2021, the Board reflected on strategic decisions made during 2020, resulting from the COVID-19 pandemic, to protect the Company in the long term and maintain cash flow, such as decisions to not pay a dividend, and reduce consultancy spend.

As stewards of the Company, the Board recognises that being aware of the needs and expectations of stakeholders is crucial, as it ensures that the Company is well-positioned to achieve long-term sustainable success and deliver value for all our different but interrelated stakeholder groups and society as a whole.

Board discussions held during the year included:

Strategy and business plan

The Board considered and oversaw the delivery of the strategic initiatives to Strategic reviews, updates, and stress testing.
The Board also considered the following matters:

- Strategic reviews, updates, and stress testing.
- Sale of Spirit Energy's Norwegian assets.
- Cancellation of 2020 final dividend.
- Group Annual Plan 2021.
- Energy Transition and Energy price risk Directors' Training.
- Energy Supply Market.
- Climate Transition Plan.
- COP26.
- Capital Markets Day.

Stakeholders considered:

Cu Co I G S C

Governance

The Board receives regular reports from the Group General Counsel and Company Secretary on governance and regulatory matters, as well as regular updates and insights on market trends from the Investor Relations function. During the year, the Board took time to consider or oversee the following key governance activities/matters:

- Annual Report and Accounts.
- General Meetings.
- Board evaluation.
- Succession planning for the Board.
- Committee composition.
- Reports from Committee Chairs.
- Conflicts of interest reviews.
- Terms of reference reviews.
- Director independence.
- Workforce engagement.
- All-Employee Share Plan.

Stakeholders considered:

Co I

Political and regulatory environment

During the year, the Board considered the following matters:

- COVID-19 crisis management and mitigation.
- UK Government energy policy proposals.
- Modern Slavery Act Statement.
- Annual tax update.
- Treasury risk management annual update.
- Insurance update.

Stakeholders considered:

I G S C

Performance and risk

Financial performance and Risks, as well as risk controls and processes are regularly reported to the Board and to the Audit and Risk Committee. Risks are also brought to the attention of the Board through reports from the Group Chief Executive, Group Chief Financial Officer, heads of business and functional subject matter experts.

- Group Performance Reports.
- Business reviews.
- Periodic results.
- Direct Energy Sale proceeds.
- Going concern and viability statements.
- Portfolio reshaping including Pensions.
- Issuer Call Option.
- 2021 Group Shape review.

Stakeholders considered:

Cu Co I G S

Culture and stakeholders

The Board recognises that understanding the views and interests of the Company's diverse community of stakeholders is important. The views and interests of stakeholders are considered in the development, delivery and oversight of the Group's business model, strategy and culture. During the year, the Board considered the following matters:

- 2021 cultural transformation review.
- Purpose and vision update.
- Investor updates and feedback.
- Industrial Action update.
- Voice of the Customer.
- Diversity & Inclusion Strategy.

Stakeholders considered:

Cu Co I G S C

Stakeholders

Customers Cu	Colleagues Co	Investors I
Government and Regulators G	Suppliers S	Communities and NGOs C

Stated below are some examples of the decision-making of the Board during the year demonstrating key stakeholders and their interests, and how our Section 172 duties influenced the matters considered by, and the decision-making of, the Board during the year.

Consideration of stakeholders and outcomes:

Decisions considered by the Board	Key stakeholder interests considered	Outcomes
Sale of Spirit Energy's Norwegian oil and gas assets and run-off strategy for the remaining Spirit Energy business (the 'Sales')	**Customers:** Centrica's strategy to reduce its exposure to carbon intensive oil and gas exploration and production in a way that maximises shareholder value. **Investors:** allow for increased focus on the customer-facing activities in Centrica's core home markets of the UK and Ireland where we have leading market positions.	The Sales represented a significant step towards Centrica delivering on its strategy to decarbonise its portfolio and reduce its exposure to oil and gas production, and further simplify and de-risk Centrica's business model while strengthening the balance sheet and reducing earnings and cashflow volatility.
General Meeting (held in January 2022) for shareholders to approve the Sales	**Colleagues:** in order to protect the health and safety of our shareholders and our colleagues, the Board issued an update to all investors via an announcement, an update on its website and with a supplementary mailing strongly advising all shareholders to participate virtually in the General Meeting. **Investors:** Shareholders' views are important. Shareholders were strongly encouraged to exercise their votes by submitting their proxy forms, invited to submit questions in advance of the meeting, and provided access to participate in the meeting, and vote, via an online portal.	Shareholders successfully participated in the General Meeting where they heard answers to their questions and the resolution was passed. The format of the Meeting not only reduced the risk of impact to public health by minimising the spread of COVID-19 but also embraced the opportunities provided by virtual participation including reducing the carbon footprint of the Meeting.
Centrica developed and published its Climate Transition Plan setting out the key steps we plan to take to help our business, our customers and the wider energy system decarbonise	Ongoing dialogue with key stakeholders confirms a growing desire to understand more about how companies are strategically responding to climate change, including how they'll mitigate climate impact whilst enhancing long-term commercial resilience. For example: **Investors:** Institutional investors requested that Centrica develop and publish a Climate Transition Plan. **Customers:** Our goal is to help our customers be net zero by 2050. **Colleagues:** Taking a lead role in the growth of green jobs whilst continuing to embrace a diverse mix of people and skills needed for a greener future. **Suppliers:** Part of future-proofing our business against climate change is to ensure we have a reliable and responsible supply chain for customers. **Government and Regulators:** We want and need governments, regulators and policymakers to work with us to deliver the necessary changes that'll be needed to achieve our climate change goals, and specifically help us get our customers to net zero in a way that's affordable and fair. We engage responsibly with key decision makers on issues we believe are critical for shaping the energy landscape our customers need. **Communities and NGOs:** Community action and engagement is essential for ensuring a successful transition.	Centrica's strategy and purpose are rooted in providing energy services and solutions that'll help our customers live sustainably, simply and affordably. In support of this, our People & Planet Plan sets out our net zero targets, and how we'll continue to develop the diverse and inclusive team that'll help us get there. Our Climate Transition Plan is the next step, explaining how we intend to achieve these goals to become a net zero business by 2045 and help our customers be net zero by 2050, while ensuring a fair and affordable transition for all.

The outcome from the key engagements, stated above, are fed back to the Board through the appropriate forum.

Woven throughout this report and on our website are further examples and evidence of how the Directors have performed their fiduciary duty under Section 172.

Section 172	Evidence
The likely consequences of any decision in the long term	Please see page 6, 8 to 9, 10 to 11, 28 to 37, and 56 to 57
The interests of our colleagues	Please see page 8 to 9, 26-27, 29-31, 56-57, 59 and 96
The need to foster relationships with suppliers, customers and others	Please see page 8 to 9, 70
The impact of the Company's operations on the community and the environment	Please see pages 32 to 37, 70
The desirability of the Company maintaining a reputation for high standards of business conduct	Please see pages 36, 70 and 96, and visit our website centrica.com
The need to act fairly between members of the Company	Please see pages 56 and 57, and visit our website centrica.com

Board strategic planning

During the year, the Board continued to review the Group's operating model and strategic plan, stress testing its resilience under a number of different scenarios. The Board also continues to regularly review various elements of strategy at Board meetings.

Site visits

The Directors recognise the importance of, and benefits gained by, visiting the Group's operations. The Directors endeavour to make a couple of visits to Centrica sites each year. For the first time in the last two years, the Board undertook a site visit to the British Gas sites at Spinneyside and Aylestone Road in Leicester, including meeting with apprentices at the British Gas Academy and visiting the British Gas innovations laboratory.

Evaluation and effectiveness of the Board, Committees and the Directors

The 2021 external Board Effectiveness Review was conducted according to the principles of the UK Code and was facilitated by Independent Board Evaluation (IBE). IBE has no other connection with the Company. The Company's last externally facilitated Board Effectiveness Review occurred in 2018, with internal self-assessments having been conducted in 2019 and 2020.

In May 2021, a comprehensive brief was given to IBE by the Chairman, Group Chief Executive, the Senior Independent Director and the Group General Counsel & Company Secretary. In June 2021, detailed interviews were conducted with every Board member. All participants were interviewed for 1.5 hours by IBE. In addition, IBE interviewed members of senior management and advisers. The lead evaluator observed Board and Committee meetings in July 2021 and reviewed the associated Board and Committee papers.

Draft conclusions were discussed with the Chairman and subsequently discussed by the Board on 23 September 2021 in the presence of IBE. IBE then gave feedback to Committee Chairs on the performance of each Committee and discussed the Board's feedback for the Chairman with the Senior Independent Director. In addition, the Chairman received a report with feedback on individual Director's performance as an input to the regular annual performance review process.

Based on the results of the external evaluation, the Board concluded that it and the Board Committees continue to operate effectively with, amongst other strengths, a strong culture of performance evaluation and governance. In addition, each Director continues to contribute effectively, with high levels of commitment and a strong determination to increase value for stakeholders.

In 2022, the Board's action plan for further enhancing its effectiveness includes focusing on talent development (particularly Board and senior management succession planning and plans for developing high potential individuals).

Board appointments

The report of the Nominations Committee on pages 69 describes the work of the Committee in relation to Board appointments and recommendations for (re-)election.

All Directors are subject to annual re-election. The Board sets out in the Notice of Annual General Meeting the specific reasons why each Director's contribution is, and continues to be, valuable to the Company's long-term sustainable success.

Directors' induction

The Board has in place processes for the Directors' induction and ongoing training. The Directors' induction programme is led by the Chairman and supported by the Group General Counsel & Company Secretary. It is tailored to meet the individual's needs, providing all the information and support required in a structured way to allow them to be effective in their role.

Directors are asked to provide input on how their induction should be tailored, in relation to both content and delivery, with the opportunity for periodic subsequent review with the Chairman.

Training and development for Directors

It is important to ensure that Directors' skills and knowledge are refreshed and updated regularly, given the dynamic business and regulatory environment in which the Company operates.

The Chairman, supported by the Group General Counsel & Company Secretary, is responsible for the ongoing development of all Directors and discusses with each Director any individual training and development needs, such as formal and informal briefings, meetings with management and visits to the Group's operations. During 2021, the Directors received training on net zero, climate change and the energy transition.

In addition, the Directors have full access to the advice and services of the Group General Counsel & Company Secretary, who is responsible for advising the Board, through the Chairman, on corporate governance matters. Directors are also able to seek independent professional advice at the Company's expense in respect of their duties.

Directors' independence and conflicts

All our Non-Executive Directors are considered to be independent against the criteria in the UK Code, and free from any business interest which could materially interfere with the exercise of their independent judgement. In addition, the Board is satisfied that each Non-Executive Director is able to dedicate the necessary amount of time to the Company's affairs.

The Non-Executive Directors' Letters of Appointment state that they must inform the Group General Counsel & Company Secretary of any other businesses, directorships, appointments, advisory roles, or other relevant connections (including any relevant changes, and a broad indication of the time involved). Directors also confirm that they will inform the Board of any subsequent changes to their circumstances which may affect the time they can commit to their duties. The agreement of the Chairman must be obtained before accepting additional commitments that might affect the time Non-Executive Directors are able to devote to their appointment.

In accordance with the Companies Act 2006 and the Company's Articles of Association, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if required, authorisation. If such conflicts exist, Directors recuse themselves from consideration of the relevant subject matter. The Company maintains a schedule of authorised conflicts of interest which is regularly reviewed by the Board.

The Company's Articles of Association provide how Directors are appointed, retired and replaced. These can be found on our website.

Engaging with our stakeholders

Workforce engagement

Following Joan Gillman stepping down from the Board in February 2021 and ceasing her role as designated non-executive director, the Board shared responsibility for workforce engagement amongst Board members.

As well as this approach of shared responsibility being one of the recognised approaches to colleague engagement that Boards may pursue, the Board considered that there is benefit from all of the Board being involved in colleague engagement activities, particularly in an environment of face-to-face activity becoming more possible prospectively with the easing of COVID-19 restrictions.

During 2021, the Chairman and Non-Executive Directors engaged with members of the workforce in various ways, including meeting with engineers and apprentices at the British Gas Academy during the site visit held there in September 2021 and regular Board breakfast engagement sessions held virtually or in person immediately prior to selected Board meetings in 2021. These engagements undertaken by the Board during the year contributed to some of the decision-making of the Board. Further information on the decision-making of the Board can be found on pages 56 and 57.

The Executive Directors and senior leadership team dedicated significant time and focus on meeting with and listening to the views of colleagues.

This has made good progress in changing the leadership tone from the top and facilitating the cultural shifts the business needs. The work undertaken is set out in the Chief People Officer's Report on pages 26 to 27. Further information can also be found in People and Planet on pages 28 to 37.

Shareholder engagement

The Board is committed to maintaining open channels of communication with all of the Company's stakeholders. An important part of this is providing a clear explanation of the Company's strategy and objectives, and ensuring feedback is acknowledged, considered and, where appropriate, acted upon. During 2021, the Chairman held 20 one-to-one meetings with investors.

Meetings, roadshows and conferences

The Group Chief Executive and Group Chief Financial Officer typically meet with our major institutional shareholders twice a year, following the Company's Preliminary and Interim results, which provides an opportunity for a review of the Company's strategy and performance. In addition, management and/or Investor Relations attend a number of investor conferences throughout the year, giving shareholders further opportunity to meet and receive updates directly from Company representatives, while senior management are also available to meet on an ad hoc basis with major shareholders if requested. The Company was due to hold a Capital Markets Event in November. However it announced in October the decision to postpone the event, with the focus on looking after customers during the unprecedented commodity environment.

Engagement themes with our institutional shareholders

During the year, engagement themes included:

- Centrica's strategic refresh and organisational restructure;
- Interim results;
- Sale of Direct Energy in North America;
- Progress on the planned divestments of Nuclear and Spirit Energy;
- The regulatory and political environment for UK energy;
- Impact of rising commodity prices;
- Ongoing impacts of the COVID-19 pandemic;
- Terms and Conditions changes;
- Board succession; and
- Environmental, Social and Governance (ESG) matters.

General Meetings

The Company holds an Annual General Meeting (AGM) each year and, as required, holds General Meetings. At the AGM, the Chairman gives his thoughts on governance aspects of the preceding year and the Group Chief Executive reviews the performance of the Group over the last year.

Shareholders are encouraged to participate in these meetings and to ask questions at, or in advance of, these meetings.

Although shareholders were not able to attend the 2021 AGM in person, their views remained important to us. All shareholders were encouraged to exercise their votes by submitting their proxy forms either electronically or by post. We also invited shareholders to submit their questions via a dedicated question facility on our website and the answers were published on our website.

Our 2021 AGM was well supported with voting in favour of the resolutions ranging from 94% to 99% and with 62% of issued share capital voted.

The 2022 AGM is due to take place on 7 June 2022 at 10.00am. Information about the format of the 2022 AGM will be provided in the Notice of Meeting. Further information pertaining to the 2022 AGM will be available at centrica.com/agm22. Voting on the resolutions will generally be conducted by a poll and the voting results will be announced through the Regulatory News Service of the London Stock Exchange and also made available on the Company's website.

Centrica.com

Our website, centrica.com, contains up-to-date information for shareholders and other interested parties including annual reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.

Our application of the UK Corporate Governance Code

It is the view of the Board that Centrica has applied the principles of the UK Corporate Governance Code throughout the year. As set out below, there are examples throughout this report of how we do this.

Section 1: Board Leadership and Company Purpose

Principle A: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Pages 50 to 53	**Principle D:** In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Pages 8 to 9 56 to 57
Principle B: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Pages 6, 10 to 11, and 48	**Principle E:** The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Pages 36, and 96
Principle C: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls.	Pages 12 to 15 38 to 43		

Section 2: Division of Responsibilities

Principle F: The chair leads the board and is responsible for its overall effectiveness in directing the company. The chair should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Page 55	**Principle H:** Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Pages 55 and 69
Principle G: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	Page 55	**Principle I:** The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Page 55

Section 3: Composition, Succession and Evaluation

Principle J: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Pages 58 and 69	**Principle K:** The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Pages 50 to 53 69
		Principle L: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Page 58 and 69

Section 4: Audit, Risk and Internal Control

Principle M: The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Pages 61 to 63	**Principle N:** The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Page 62
		Principle O: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Pages 62 and 64 to 68

Section 5: Remuneration

Principle P: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	Pages 82 to 94	**Principle Q:** A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	Pages 82 to 94
		Principle R: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	Pages 88 to 89

Audit and Risk Committee

Dear Shareholder

I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2021 which provides an insight into the work carried out by the Committee, our areas of focus and key activities in what has been another demanding year.

During the year, the Committee focused on ensuring the integrity of the Group's published financial information and the effectiveness of the Group's risk management and internal controls framework.

The Committee considered a range of matters during the year, which are disclosed in this report.

As a standing item on the Committee's agenda, the Committee considered the enterprise risk and control framework, the management of cyber risks and legal and regulatory matters.

I hope you find this report a helpful explanation of our work during the year. It should be read in conjunction with our UK Corporate Governance Code application section on page 60, Our Principal Risks and Uncertainties on pages 38 to 43 and our Viability Statement on pages 44 to 46. I would like to thank the members of the Committee and the functional support teams across the business for their effort, time and commitment during what was a testing year for the industry.

Role of the Committee

The Committee's terms of reference are available on our website centrica.com. We review these terms of reference annually.

The core responsibilities of the Committee are to:

- monitor and review the adequacy and effectiveness of the governance and oversight of the Company's financial processing and reporting, internal controls and risk management;
- provide advice and assurance to the Board on whether it has discharged its duties and whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's position, performance, business model and strategy;
- monitor and review the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources;
- supervise the appointment of the Chief Risk & Audit Officer;
- manage the relationship, including appointment, independence, effectiveness and remuneration of the Group's external auditors on behalf of the Board;
- conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board;
- review the Company's arrangements for its workforce/stakeholders to raise concerns in confidence about possible improprieties in financial reporting or other matters; and
- consider and review material legal and regulatory policy compliance issues or risks, and maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime.

Membership of the Committee and attendance at meetings

The Committee is comprised solely of independent Non-Executive Directors. Kevin O'Byrne, the chairman of the Committee and group chief financial officer of J Sainsbury plc, is considered by the Board to have recent and relevant financial experience. The members of the Committee are Carol Arrowsmith, Stephen Hester and Pam Kaur. Carol Arrowsmith is connected to Deloitte ('the Firm') as historically, she was a partner there but she had left the Firm prior to their appointment as the Group's external auditor. In addition to this, the Firm provides her with services in a personal capacity. The Committee deems that this does not affect the independence and judgement of Deloitte nor the Committee's oversight of Deloitte's performance. Biographical details of the Committee Chairman and members can be found on pages 50 to 53. Meeting attendance of the Committee members can be found on page 54. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

Meetings of the Committee are attended by the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Group General Counsel & Company Secretary, the Group Financial Controller and the Chief Risk & Audit Officer, none of whom do so as a right. Other Senior Executives will attend as required to provide information on matters being discussed which fall within their area of responsibility. The external auditors, Deloitte LLP (Deloitte), also attended each meeting. The Committee meets individually with the external auditors, the Group Chief Financial Officer and the Chief Risk & Audit Officer without other Executive Directors present.

The Committee met four times in 2021.

The Committee has a yearly agenda which is linked to the Company's financial calendar. The agenda is flexible, facilitating deep dives into topics of particular importance to the Committee.

Main activities of the Committee during 2021

During the year, the Committee:

- reviewed business risk areas, accounting judgements and effectiveness of the finance function and control environment. Details of key judgements and financial reporting matters in 2021 are set out on pages 64 to 68;
- reviewed the approach taken to assess credit risk exposure to wholesale and large industrial and commercial customers affected by COVID-19 and the changes in the energy market;
- reviewed accounting judgements in particular, those relating to the impact of COVID-19, the sale of Direct Energy and the proposed sale of Spirit Energy's Norwegian assets and interests in the Statfjord field;
- reviewed Going Concern and viability work and associated disclosures;
- reviewed the future working capital requirements of the Group following the disposal of Direct Energy;
- reviewed the 2020 financial results, 2020 Annual Report and Accounts and 2021 Interim results, having regard to any matters that may have been communicated by Deloitte;

- reviewed the structure of the 2021 Annual Report and Accounts to best reflect the Group's operations in line with the strategic update in 2021;
- effectiveness review of the external audit process;
- continued oversight of the maintenance and development of the control environment particularly in light of organisation design changes and their impact on the oversight of the control environment;
- external review of the internal audit function;
- reviewed the approach taken to assess credit risk exposure amidst the collapse of some energy suppliers in the UK energy supply market during 2021;
- considered the wider impact of the exceptionally volatile commodity prices;
- reviewed regular reports and recommendations from the Internal and External Audit on Risk, Assurance and Controls; and
- carried out deep dives of British Gas Energy's risks and controls as well as the Group-wide financial risk and Group definitions of capital employed.

Effectiveness of the Committee

Read more about the Committee's effectiveness on page 58.

Risk management and internal controls

Internal Audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources. The Chief Risk & Audit Officer has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee.

The Committee reviewed and approved the Group's annual Internal Audit plan (the plan). The plan is designed with reference to the Group's Principal Risks, which regularly evolve. Further information on the Principal Risks is available on pages 38 to 43. During the year, the Committee receives regular updates on the Internal Audit team's findings and the business units' action on the findings and on the plan. The progress made on the plans, which are ranked according to significance, is monitored to ensure each plan is completed satisfactorily.

During the year, the Internal Audit function was benchmarked against the Internal Audit Code of Practice 2021. No material gaps were noted and some opportunities to strengthen existing operating practices were identified. The Committee remains satisfied that the Internal Audit function has the necessary integrity, objectivity, and competency to fulfil its mandate. It has also satisfied itself that the Internal Audit function has adequate standing and is free from management or other restrictions.

Review of the System of Risk Management and Internal Controls

Our risk management and internal controls, including compliance with Our Code, and policies are assessed through a self-certification process. We also have a programme to assess the Group's Entity Level Controls. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, enable the Committee, on behalf of the Board, to form and report their view on effectiveness.

During 2021, the Committee oversaw the work of Internal Audit and the functional support teams, alongside the management teams. As part of its oversight, the Committee received verbal and written reports on movements in the Group Principal Risks, as well as updates on other Group frameworks such as Legal and Regulatory Compliance. The Committee has confidence in their ability to identify issues that arise and the business units' ability to remediate control gaps in the business, where necessary, in line with our risk appetite. The Committee noted the risk management process and internal controls have been in place throughout the year and remain effective, though we recognise the need for ongoing and continuous review or, where necessary, improvement.

Fair, balanced and understandable

In line with the UK Code, the Committee, on behalf of the Board, reviews the Annual Report, to determine if, when taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and stakeholders to assess the Company's position and performance, culture, business model and strategy. Additionally, the Committee considers the processes and controls involved in the production of the Annual Report, as well as the financial responsibilities of the Directors. There is a robust governance framework around the production of the Annual Report which ensures it is critically reviewed and signed off by the key teams in the relevant businesses and functions.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, audit plan, performance objectivity and independence of the external auditors.

To ensure objectivity, key members of the external audit team rotate off the Company's audit. To safeguard the independence of the Company's external auditors and the integrity of the audit process, the recruitment of senior colleagues from the Company's auditors is not permitted for a period of at least two years after they cease to be involved in the provision of services to the Company.

Following a competitive external audit process in 2016, Deloitte was appointed as the Company's auditors at the beginning of 2017 and will this year perform their fifth full audit. In accordance with applicable audit independence standards, the lead audit partner, James Leigh, will rotate off the audit at the conclusion of this year's audit, and Jane Boardman has been selected as his replacement. In accordance with the CMA order on Statutory Audit Services for large companies, the Committee has considered the appropriate time to put the audit out to competitive tender. Given the complexity of the business it is important to balance the benefits of a fresh perspective from a new audit firm, with the negative effects of the disruption and educational time requirements from both tendering and onboarding. The Committee considers that the Deloitte lead audit partner rotation goes some way to providing a fresh perspective and accordingly believe it is in the best interests of shareholders for the company to plan for a competitive audit tender in 2026 (the ten-year legal threshold) with the successful firm taking over for the 2027 financial year. The re-appointment of Deloitte as auditors for the 2021 financial year was approved by shareholders at the AGM in May 2021 and Deloitte has been recommended for re-appointment again in 2022.

The Company has complied with the Statutory Audit Services Order 2014 for the financial year under review.

Effectiveness of the external audit process and the independence and objectivity of the external auditors

To assess the effectiveness of the external audit process and independence and objectivity of the external auditors, the Committee carried out an assessment, primarily looking at the key areas of:

- robustness of the audit process;
- quality of people and service;
- quality of delivery;
- independence and objectivity; and
- value added advice.

This assessment included an internal questionnaire, which was completed by the Chairman of the Board, Committee members and senior members of management on their views of Deloitte's performance. The questionnaire covered a review of the audit partner and team, the audit scope and approach, audit plan execution, auditor independence and objectivity and robustness of challenge of management. Separately, Deloitte also provided an assessment, via an internal management questionnaire, of management's controls, judgements and engagement throughout the audit process. The feedback received was reviewed by management and reported to the Committee. The Committee and the Board confirm that they have taken all the necessary steps to become aware of any relevant audit information and to pass that information onto Deloitte. The Committee was satisfied with the external auditors' commitment to audit quality, the robust and professional working relationship with management and demonstration of strong technical knowledge and professional scepticism. In addition, to ensure the independence of the external auditors, and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 2019 issued by the Accounting Practices Board and as a matter of best practice, Deloitte has confirmed its independence as auditors of the Company. On the basis of Deloitte's confirmation and report on their approach to audit quality and transparency, the Committee concluded that: Deloitte possesses the appropriate qualifications and expertise; remains independent of the Group; and, coupled with effective management engagement, that the audit process was effective.

The Committee is aware of, and has noted, the FRC's July 2021 report on Deloitte's Audit Quality Inspection and Supervision. The Committee has also reviewed the findings of the FRC's Audit Quality Review (AQR) in respect of Deloitte's audit of the Group's 2019 financial statements, which was received in May 2021. The report included key findings in one area of the audit, together with an identified area of good practice. The Committee reviewed Deloitte's responses to the AQR's findings, noting areas which were addressed in the completed 2020 audit, and areas to be addressed in the 2021 audit. The Committee was satisfied with Deloitte's responses to the matters raised.

Corporate Reporting Review

The Audit and Risk Committee assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders and other stakeholders. The Committee oversees financial reporting and related risks and internal controls, and also has a role in overseeing the internal and external auditors, as well as interacting with other members of management and external stakeholders as required.

Non-audit fees

To safeguard the objectivity and independence of the external auditors, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website centrica.com. The Chairman of the Audit and Risk Committee must approve all requests to utilise Deloitte for non-audit services. There is an annual cap on non-audit work during the ordinary course of business of £1 million, which is assessed each year for appropriateness in the context of external guidance and regulation.

During 2021, work on the divestment of Spirit Energy's Norwegian assets and the Statfjord field required additional services from Deloitte to facilitate the sale, pushing fees above the overall cap of £1 million. The work related to the Reporting Accountant services in respect of the disposal Class 1 Circular. Deloitte were clearly best placed to undertake this engagement given their knowledge of the business and the required time frame. Fees for this service amounted to £0.9 million. Overall total non-audit fees incurred in the year was £1.7 million (2020: £4.3 million), including £0.5 million for the review of the interim results and £0.3 million for the audit of the Ofgem consolidated segmental statements. In line with the non-audit fees policy, approval for this expenditure was sought and received from the Committee in advance of the work commencing. The amount incurred in the year is well below the legal cap of 70% of non-audit fees (for service not required by regulation) compared to the three-year average of statutory audit fees, amounting to approximately 19%.

In normal circumstances, all significant non-audit work is put out to tender and Deloitte are only ever appointed if their experience and knowledge makes them the most appropriate supplier and it is clear another firm could not undertake the work without adversely impacting the business.

Kevin O'Byrne
on behalf of the Audit and Risk Committee
23 February 2022

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Supplier of Last Resort (SoLR) Accounting Following the unprecedented rise in commodity prices in the second half of 2021, a number of UK energy suppliers were unable to continue trading and the Group was appointed as the Supplier of Last Resort for the customers of eight suppliers. Under Ofgem's licence conditions, the Group is entitled to make a Last Resort Supplier Payment claim for the shortfall between costs reasonably incurred in supplying gas and electricity to premises under the Last Resort Supply Direction, and the charges recovered from customers (which are limited by the tariff cap). The Group submitted an initial claim, covering a six month period from the date of appointment, and received confirmation of Ofgem's acceptance in December 2021. The claim primarily covers incremental commodity costs, incurred as a result of procuring gas and electricity to supply affected customers. The Group will submit a second claim to Ofgem by Autumn 2022, recognising both actual commodity costs incurred, and additional costs which were not included in the initial claim. This includes the recovery of customer credit balances, where the Group has not waived the right to do so. The value recognised for the receivable at 31 December 2021 is £234 million, offsetting losses incurred and customer credit balances recognised. The Group judges that the Last Resort Supplier Payment process represents an Ofgem support mechanism, enabling energy suppliers to provide stability to the customers of failed suppliers. The Group determines this is within the scope of IAS 20 'Government Grants' and amounts receivable under the mechanism are deemed virtually certain and are recognised as the related expenses are incurred or liabilities recognised.	The Committee has considered the judgement made by the Group and concurs that the recognition of the SoLR receivable is appropriate and matches the costs and liabilities incurred or recognised by the Group during the year. The Committee held discussions with the external auditors to verify the approach being taken and were further re-assured that the proposed accounting treatment aligns with expected industry practice.
Determination of forecast commodity prices and their use in valuing long-lived assets and derivative contracts Commodity price forecasts are a key assumption in the valuation of the Group's long-lived assets and derivative contracts. For short-term commodity prices over the next 4 years, observable liquid market prices (as at 31 December 2021) are taken as the best view of expected price. For the longer-term period thereafter, the Group uses a "P50" median price curve, derived from a collection of third-party forecasts. This approach is deemed to align to pricing that a reasonable market participant would use and so other external data points (e.g. consensus view of impact of climate change and geopolitical events) are expected to be factored into these prices. The Group has used these price curves in its asset impairment testing and contract valuations. The Group has also obtained commodity price forecasts which are intended to be consistent with net zero by 2050. These are lower than the "P50" curves the Group has adopted for NBP Gas and Brent Oil but are higher for Baseload power. The Group has shown the impact of such price forecasts on the gas and oil, and Nuclear assets in note 7 of the financial statements.	The Committee noted the unprecedented rise in short-term prices and the wider impact/causation this had on other judgements. It reconfirmed continued support for the longer-term "P50" median curve (derived from third parties) approach. The Committee noted that the "P50" long-term commodity price forecasts were slightly down year-on-year for all commodities, although this was dwarfed by the near-term increases. The external auditors provided detailed reporting and held discussions with the Committee on the impact of the commodity curves. As a result of the above, the Committee were comfortable the curves were reasonable. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on page 134 to 138. The Committee noted the use of a price curve intended to be consistent with the net zero by 2050 in the impairment sensitivities and believed the output provided useful information to readers of the accounts.
Assets held for sale and discontinued operations The Group announced on 8 December 2021 that it had agreed to dispose of the Spirit Energy Norwegian and Statfjord fields to Sval Energi and Equinor respectively. At the year-end, the disposal was subject to shareholder approvals. The Group's shareholders approved the transaction at a general meeting on 13 January 2022, and SWM, our Spirit Energy partner, are expected to complete their approval process shortly, with completion of the deal due in Q2 2022. The Group judged that the assets and liabilities of the Spirit Energy Norwegian and Statfjord disposal group should be classified as held for sale as at 8 December 2021 because disposal was highly probable at that point. Furthermore, as the disposal group did not represent a separate major line of business or geographical operation, because the Upstream segment will retain other European oil and gas fields post-completion, its results have not been presented as discontinued operations. The disposal of Direct Energy completed on 5 January 2021. This business was treated as a discontinued operation in both 2020 and 2021 because it represented a separate major line of business.	The Committee concurred that the disposal of Spirit Energy's Norwegian and Statfjord fields was highly probable on 8 December 2021 and should be reflected as a disposal group held for sale in this year's financial statements. It also noted the shareholder approval on 13 January 2022 and the expected completion date in Q2 2022. The Committee agreed that classification as a discontinued operation was not appropriate because the Group will retain the Spirit Energy UK and Netherlands business, post-completion. The Committee re-confirmed its support for Direct Energy being treated as a discontinued operation.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Impairment and Reversals of long-lived assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable: ***Spirit Energy Norwegian and Statfjord field Disposal Groups*** An impairment test must be conducted immediately prior to the transfer of assets and liabilities to held for sale categorisation. At the same time, Goodwill associated with the wider Exploration and Production cash generating unit must be allocated between the retained business and the disposal group. The Group has judged that all of the Goodwill (£408 million) should be allocated to the Norwegian disposal group because historically it was only these fields and this geographic area that had justified the recoverable amount. Subsequently, the disposal group impairment test, comparing the net asset carrying value to the expected proceeds, has led to an exceptional Goodwill impairment of £198 million. At the year-end, the Group has also considered the value of its retained exploration and evaluation ('E&E') assets. As a result of the proposed Norwegian/Statfjord disposal, Spirit Energy's strategic direction has changed such that there is now limited appetite to explore or develop new fields. Consequently, the E&E assets (and related contractual positions) have been written off and led to an exceptional cost of £37 million. ***Retained Upstream (Exploration and Production ('E&P') and Power assets)*** For retained Upstream assets, discounted cashflows are prepared from projected production profiles of each field or power asset, taking into account forecast future commodity prices, to assess their recoverable amount. When deriving forecast cashflows, market prices are used for the period when a commodity is liquid. For the longer-term illiquid period, the "P50" median price curve is used (see "Determination of forecast commodity prices and their use valuing long-lived assets and derivatives", above). Judgement is also required around production volumes. For E&P, each field has specific reservoir and field characteristics and is modelled independently. For Nuclear, recent availability issues at a number of stations and early closure of Dungeness have been factored in and implications considered for the wider fleet. The expected operating life of Sizewell has continued to be reflected to 2055 in the modelling, beyond the original design life. At the year-end, pre-tax net exceptional impairment reversals of E&P gas and oil fields (including decommissioning and small disposal adjustments). of £838 million were booked, relating to a number of fields. A pre-tax exceptional impairment reversal of £747 million in relation the Nuclear investment was also booked. Both these reversals were predominantly driven by the dramatic increase in short-term commodity prices. As a result, extra sensitivity analysis has been provided in the financial statement to show the impact if there was a 50% reduction in short-term liquid prices. ***Centrica Business Solutions – energy solutions*** For Centrica Business Solutions – energy solutions customer cash generating unit (i.e. excluding energy supply), the recoverable amount of the business is calculated using a discounted cashflow. Cashflows are projected over a 5-year period, based on Board-approved business plans, and a terminal value calculated based on year 5 and an appropriate growth rate. Judgement is required in assessing the achievement of Board-approved business plans, the long-term projected cash flows, and macroeconomic assumptions such as the growth and discount rates. During the year, Centrica Business Solutions has made a number of strategic changes, re-focusing the business in core locations and leading to revised growth forecasts. As a result, a £123 million exceptional asset impairment (including the entire Goodwill balance of £103 million) has been booked at the year-end.	The Committee reviewed the recoverable amount assessment of the Norwegian and Statfjord disposal groups. It concurred with the allocation of the entire E&P Goodwill balance to the Norwegian group and the consequent write-off booked. The Committee also understood the rationale for writing off the remaining exploration and evaluation assets. The Committee reviewed management reports detailing the retained E&P assets requiring impairment reversal and the key judgements and estimates used. The Committee noted that the reversals were driven by the increase in short-term commodity prices offset by a modest fall in "P50" longer-term prices. It also observed that the asset write-backs were generally restricted to depreciated historic cost and therefore there is some headroom maintained over the updated carrying values. The Committee noted the Nuclear investment write-back was also primarily driven by the price increases noted above, offset by the small reduction on "P50" longer term prices, as well as a reduction in production volume assumptions, following a number of availability issues during the year and the early closure of Dungeness. It observed that due to the backwardation of forecast commodity prices, the Nuclear investment would likely need to be impaired again in 2022. The Audit and Risk Committee challenged management and the external auditors on the key inputs to the impairment models including price, outage rates, assumed lives and discount rates, and were comfortable with the conclusions reached. The Committee were pleased that further price sensitivity disclosures have been included in the financial statements. The Committee also noted the methodology used in valuing the Centrica Business Solutions – energy solutions. It concurred with management's ultimate assessment of the level of impairment required for Centrica Business Solutions. Further detail on impairment arising and the assumptions used in determining the recoverable amounts is provided in notes 7, 12 and S2 on pages 134 to 138, 145 to 147 and 175 to 187.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Energy derivatives – classification and valuation The Group enters into numerous commodity contracts in its ordinary course of business. This can be to procure load for its downstream business, sell output from its upstream assets, to trade around its other commodity exposures or to make money from proprietary activities. On entering into these contracts, the business assesses each of the individual trades and classifies them as either: (i) Out of scope of IFRS 9: For "own use" contracts (i.e. customer contracts, contracts to take delivery and meet customer demand or sell upstream output) and contracts that cannot be net settled (ii) In scope of IFRS 9: Contracts for commodities which have the ability to be and practice of being net settled Energy contracts outside the scope of IFRS 9 are accruals accounted. Those contracts considered to be within the scope of IFRS 9 are treated as derivatives and are marked-to-market (fair valued). If the derivatives are for proprietary energy trading, they are recorded in the business performance column of the Group Income Statement. If they are entered into to protect and optimise the value of underlying assets/contracts or to meet the future downstream demand needs, they are recorded as certain re-measurements. The fair-value of derivatives are estimated by reference to published liquid price quotations for the relevant commodity. Where the derivative extends into illiquid periods, the valuation typically uses the "P50" median price curves (see Determination of long-term commodity prices and their use valuing long-lived assets). Judgement is required in all aspects of both the classifications and valuations. One of the Group's critical accounting judgements is that its LNG contracts are outside the scope of IFRS 9 because they are entered into for its own purchase and sale requirements ("own use").	The Committee noted that the Group's policy and methodologies in classifying and valuing energy derivatives were unchanged from previous periods. The Committee also reviewed and understood the breakdown by business, of the movement in IFRS 9 energy derivative valuations in the Group Income Statement. They reflected on the fact the Group is generally a net buyer of commodity and that the certain re-measurement derivative net gain of £1.3 billion (being £3.9 billion gain for UK Supply book trades, offset by £2.6 billion loss for Upstream, EM&T and other books) was predominantly a result of the increase in short-term commodity prices. The Committee noted the link between the derivative certain re-measurements for the UK supply books and the new onerous supply contract provision certain re-measurements, as discussed below. Further detail is provided in notes 1, 2 and 7 on pages 117 to 120 and 134 to 138. The Committee noted and continued to concur with the specific judgement around LNG contract own use classifications.
Onerous Energy supply contract provision The Group's residential and business energy supply contracts are accruals accounted. The Group operates and manages a hedging strategy to ensure that the future costs of supplying these customer portfolios are appropriately managed. These hedges are generally in the scope of IFRS 9 and are measured at fair value (see "Energy Derivatives – classification and valuation" above). They are recognised as certain re-measurements in the Group's income statement until the point at which the related costs to purchase electricity and gas are incurred. Following the substantial increase in near-term commodity prices, significant gains have arisen on these procurement hedges as they are marked-to-market. Because of this hedge value recognition, the assessment of whether the supply contracts are onerous must be calculated based on the cost of fulfilling these arrangements, including the reversal of previous mark to market gains. The Group determines that at the reporting date, the future costs to fulfil customer contracts including market-to-market reversals, will exceed the charges recovered from customers because the associated hedging gains have already been recognised in the income statement. The Group has recognised an onerous supply contract provision of £2.5 billion at the year-end date. This has been calculated by estimating the expected margins from energy supply customers, and deducting from this margin the expected costs to fulfil those arrangements, including energy purchase costs reflecting the mark to market gains, and directly attributable overhead costs. For customers where this results in a loss, an onerous contract provision is recorded. The movement in the onerous provision has been reflected as a certain re-measurement in the Income Statement because these supply contracts are economically related to the fair value movements on the hedges.	The Committee understood the rationale for including an onerous energy supply contract provision. The Committee observed that this was required because of the unprecedented movement in energy prices and that the onerous provision would expect to predominantly unwind in 2022. The Committee reviewed the key assumptions used in the calculation and noted the sensitivity to margin and customer churn assumptions. It noted the disclosures included in the financial statements to highlight this sensitivity. The Committee held discussions with the external auditor to confirm the appropriateness of the accounting treatment and to confirm their views of the assumptions used. Further detail is provided in notes 1, 2, 3 and 7 on pages 117 to 124 and 134 to 138.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Classification and presentation of exceptional items and certain re-measurements The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this in a clear and consistent presentation, the effects of certain re-measurements of financial instruments and onerous supply contract provisions, and exceptional items are reported separately in a different column in the Group Income Statement. The classification of items as exceptional and specific trades as certain re-measurements (see “Onerous energy supply contract provision” and “Energy Derivatives – classification and valuation” sections above) are subject to defined Group policies. These policies are reviewed annually by management. At the year-end, exceptional items included the impairments and reversals noted above, as well as a restructuring net credit predominantly from the reversal of a prior period over-provision of £14 million and a fair value gain of £15 million on a minority investment. Certain re-measurements totalled an overall c £1.2 billion loss – being £1.3 billion gain from derivatives and £2.5 billion loss from the onerous supply contract provisions.	The Committee had formally reviewed and approved the Group’s policy on exceptional items in previous years and, in the current year, it used this policy to help inform the appropriateness of the proposed classifications. The Committee challenged the items classified as exceptional items, considering their size, nature and incidence and in the context of the Group policy. The Committee concluded that separate disclosure of these items as exceptional was appropriate in the Financial Statements. The Committee also noted that the Group policy on certain re-measurements had been updated to include the onerous supply contract provisions. It noted the link between these provisions and the derivatives associated with procuring downstream supply. Accordingly, the Committee agreed that this presentation continues to allow underlying performance to be reflected on a consistent and comparable basis. Further detail is provided in notes 1, 2, 3 and 7 on pages 117 to 124 and 134 to 138.
Energy supply revenue recognition The Group’s revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end position. This is estimated through the billing systems, using historical consumption patterns, on a customer- by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised. At the year-end, unread energy income for the continuing supply businesses was £1.7 billion (2020: £1.5 billion).	The Committee has reviewed the level of unread revenue and unbilled accrual made during the year and discussed with management and the external auditors. The Committee noted that the unread revenue and unbilled accrual had followed the same estimation process as in previous years and that the external auditors had independently reperformed this calculation to within an immaterial difference. More details of unread energy income are provided in note 3 on pages 121 to 124 and on unbilled energy income in note 17 on pages 153 to 159.
Pensions The assets and liabilities, and the cost associated with providing benefits under defined benefit schemes is determined separately for each of the Group’s schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group’s expected liabilities. The net Group pension deficit was £nil (2020: £601 million). The UK defined benefit schemes used a nominal discount rate of 1.8% (2020: 1.5%) and inflation of 3.1% (2020: 2.8%).	The Committee noted the key pension assumptions and disclosures in the Financial Statements. The Committee also noted that the Group had removed a 15 basis point adjustment to the discount rate, thereby becoming marginally more conservative. All other key defined benefit assumptions were derived using a consistent year-on-year methodology. All rates remained within comparator range. The Committee recognised the role of the independent actuary, who are consulted on the appropriateness of the assumptions, and discussions were also held with the external auditors. Further details on pensions are set out in note 22 on pages 164 to 168.

Key judgements and financial reporting matters in 2021	Audit and Risk Committee reviews and conclusions
Credit Provisions for Trade and Other Receivables The IFRS 9 impairment model requires credit provisions ("bad debt") for trade and other receivables to be based on an expected credit loss model, as opposed to an incurred loss basis. The economic effects of the inflationary pressures on household income, not least energy prices, will likely impact the ability of the Group's customers to pay amounts due. Accordingly, there is significant judgement around the levels of forecast bad debt and the provisioning required at the year-end. The Group's residential and business energy supply customers account for the majority of Group's credit exposure (with balances associated with our trading business generally received within 30 days). Expected default rates in these areas are calculated initially on a matrix basis by considering recent historical loss experience, the nature of the customer, payment method selected and, where relevant, the sector in which they operate. Management have then also factored in forward looking economic assumptions, taking into account inflation and affordability forecasts. In the prior year, the Group increased its level of bad debt provisioning by £30m in response to the risks associated with COVID-19. In 2021, the deemed quality and relative aging of the Group's debt has improved compared with last year, reducing the underlying modelled provision output. High-level macroeconomic provisions have been maintained to cover inflationary concerns. For UK Downstream energy supply, the closing bad debt provision moved to 29% (2020: 34%) of UK energy supply gross receivables. Due to the significant estimation uncertainty in this area, management continue to provide detailed analysis and sensitivities in note 17 to the Annual Report and Accounts.	The Committee reviewed management's groupings of receivables by the key factors affecting recoverability (e.g. payment method, nature of customers) and considered the levels of provisions booked against each grouping, at the year-end. The Committee discussed the approach with the external auditors. The Committee were comfortable with the provisions booked, including the macroeconomic provisions, whilst noting the significant estimation uncertainty in this area. The Committee welcomed the enhanced disclosure in note 17, setting out the judgemental nature of the provisioning and the sensitivity analysis to allow users of the accounts to model different outcome scenarios.
Fair, Balanced and Understandable The Board is required to confirm that the Annual Report and Financial Statements are fair, balanced and understandable. To enable the Board to make this declaration, there is a year-end review process to ensure that the Committee and the Board have access to all relevant information, including management's papers on significant issues.	The Committee reviewed the key factors considered in determining whether the Annual Report is fair, balanced and understandable. The Committee and all Board members received a draft of the Annual Report and Financial Statements in sufficient time to review and challenge the disclosures therein. In addition, the Committee took into consideration the external auditor's reviews of the consistency between the reporting narrative of the Annual Report and the Financial Statements.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported International Financial Reporting Standards Annual Report and Accounts. The Group publishes the CSS at the same time as the full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditor also provided a report on the work on the CSS and held discussions with the Committee. The full CSS and the independent audit opinion are set out on pages 225 to 236.

Nominations Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Nominations Committee report for 2021 which explains the Committee's focus and activities during the year.

This year the Committee focused on succession planning specifically on the membership of the Board and ensuring the Board is of the appropriate size and has the right composition as the Company builds for the future, as well the evaluation of the Board's effectiveness.

Role of the Committee

The Nominations Committee is responsible for ensuring that the Board and its Committees have the appropriate balance of skills, knowledge, and experience to effectively lead the Company both now and in the future. This is achieved through effective succession planning, reviewing Board composition and assessing training requirements for Board members.

In identifying and nominating candidates to fill Board vacancies, the Committee considers candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard for the benefits of diversity on the Board. The Committee embraces the importance of diversity and inclusion and supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity respectively.

In line with the Board's Diversity Policy, adopted by the Board in July 2019, the Committee remains committed to enhancing the diversity of the Board, with broad search criteria used to encourage a diverse range of candidates. As at 31 December 2021, 50% of the Board and three out of five independent Non-Executive Directors (60%) were women. The Board comprised nationals of three different countries (the UK, Ireland and South Africa), with a wide range of backgrounds and experience. Further information on our Board can be found on pages 54 and 55.

The current Board composition meets the target ethnic minority representation set by the Parker Review. We are pleased with the progress that we have made. However, as a Committee we recognise that this is only one aspect in our strategy of achieving a diverse and inclusive business. In this respect, our senior leaders are also required to support our Board Diversity Policy in developing diversity in the business. Further information on the steps that the Company is taking to create a diverse workplace and develop the appropriate culture to enable all of our colleagues to achieve their full potential, together with information on the diversity and ethnicity of our management and colleagues is provided on pages 29 and 30.

The Committee reviews its Terms of Reference annually to ensure that they remain appropriate and the Committee continues to operate effectively.

Main activities for the Committee during 2021

During the year, the Committee met on four occasions and its main areas of focus were:

- the process for the selection and appointment of Kate Ringrose as Group Chief Financial Officer;
- the process for the selection and appointment of Raj Roy as Group General Counsel and Company Secretary;
- Board composition post-completion of the divestment of the Direct energy business in North America in January 2021;
- approach to Workforce Engagement; and
- Board Evaluation assessment (see page 58).

Board succession

It is the role of the Nominations Committee to ensure there is a formal procedure for the appointment of new Directors to the Board. The Committee is responsible for leading the succession planning process and making recommendations to the Board. The Committee, during the year, focused on the skills the Board required, to support the Company's goals and objectives. As part of its focus, the Committee considers the diversity of gender, cultural background and experience, within the Board. The Company is proud of the progress made so far. However, we recognise there is more work to be done to support our commitment to putting diversity, inclusion, care and respect at the heart of what we do.

Executive Directors

In January 2021, Johnathan Ford stepped down as Group Chief Financial Officer and Executive Director, leaving on 31 January 2021. In line with the succession plans in place, Kate Ringrose was appointed Group Chief Financial Officer with effect from 18 January 2021.

Non-Executive Directors

Centrica has a thorough and robust search process for the selection of new Non-Executive Directors. Except for Spencer Stuart, where Carol Arrowsmith was a member of its Advisory Group during 2021 and early 2022, there are no other connections between search firms, the Company and its individual directors. A shortlist of candidates is shared with the Committee, meetings are scheduled with Directors and members of management, and then once the candidates have been identified, and their ability to meet the necessary time commitment is confirmed, a recommendation is made to the Board.

To ensure that Directors will continue to have sufficient time to commit to their Centrica responsibilities, any additional external appointments taken up require advance approval by the Board. During the year, the Committee considered and approved Stephen Hester, appointment as chair of easyJet plc and lead independent director of Kyndryl Holdings, Inc.

Joan Gillman stood down as a Non-Executive Director with effect from 8 February 2021. On 7 January 2022, the Board announced the appointment of Amber Rudd, with effect from 10 January 2022. Spencer Stuart supported the search process for Amber who brings a wealth of experience in energy, policy and business, which will be invaluable as the Company faces the challenge of delivering net zero and helping our customers live more sustainably and affordably. In addition, through other roles she has held, including as Home Secretary and Secretary of State for Work and Pensions and Minister for Women and Equalities, she brings a diverse range of expertise which will complement the skills and capabilities of the existing Board and leadership team.

Committee memberships

The Nominations Committee comprises of five Non-Executive Directors and Scott Wheway as Chairman. The members of the Committee and their attendance for the year is reported on page 54. During the year, the Committee considered the composition of the Board and its committees, taking into account the skills and experience of Directors. The Committee was satisfied and did not recommend any changes to the membership of the Committees.

Effectiveness of the Committee

Read more about the Committee's effectiveness on page 58.

Scott Wheway
on behalf of the Nominations Committee
23 February 2022

Safety, Environment and Sustainability Committee

Dear Shareholder

On behalf of the Board, I present the Safety, Environment and Sustainability Committee (SESC) report for the year ended 31 December 2021 which explains the Committee's focus on, and activities relating to, a breadth of Health and Safety and wider ESG (Environmental, Social and Governance) matters during the year.

It was an important year for the SESC. As part of our review of the People & Planet Plan, we oversaw the development of Centrica's Climate Transition Plan, which sets out our ambition to become a net zero business by 2045 and to help our customers be net zero by 2050, whilst ensuring a fair and affordable transition for all.

Role of the Committee

The purpose of the Committee is to assist the Board in reviewing the practices and performance of Centrica with respect to safety, environment and broader sustainability. This is achieved through a regular and rigorous review of activities relating to the responsible and sustainable activities undertaken by the Company which includes significant incidents that impact safety, as well as key progress and performance against our People & Planet Plan. As part of its focus, the Committee also provides input to and review of the Company's annual reporting and disclosures.

The Committee regularly undertakes annual reviews of its terms of reference to ensure that they accurately reflect the role carried out by the Committee and that they take account of new external developments.

Committee memberships

The Committee is comprised solely of Non-Executive Directors with Heidi Mottram as Chair, and members include Pam Kaur and Scott Wheway. Amber Rudd became a member on 10 January 2022.

SESC members bring a wide range of sector experience, insight and stakeholder perspectives which are used to challenge, shape and provide oversight of the SESC's agenda. Details of the matters discussed at Committee meetings are set out later in this report.

During the year, the Audit and Risk Committee Chair, the Remuneration Committee Chair, the Group Chief Executive, the Group General Counsel & Company Secretary and the Group Chief People Officer attended all Committee meetings, as did other key executives on relevant issues. The Committee met three times in 2021.

Main activities of the Committee during 2021

During the year, the Committee focused on ESG issues relevant to Centrica, as well as reviewing health and safety risks.

At the start of the year, the Committee oversaw the launch of Centrica's new People & Planet Plan. The People & Planet Plan was introduced to help create a more inclusive and sustainable future that supports communities, our planet and each other, in alignment with our purpose of 'helping you live sustainably, simply and affordably'. During the year, the Committee reviewed progress against the Company's climate targets as well as the stated diversity and inclusion and community goals (see pages 29 to 35).

With strong net zero goals in place via the People & Planet Plan, the goal of the Board and Management was to develop and adopt a climate transition plan for the business. The Committee has therefore engaged with, and reviewed, the Group's climate ambitions alongside the risks associated with the transition to net zero. The Committee also assessed the supporting scenario analysis. The Climate Transition Plan was subsequently published in October 2021 and supplements the progress we have already made to address environmental and sustainability areas that are critical to our stakeholders, and highlights where we are well placed to make the greatest difference (see pages 28 to 35).

The Committee takes an active role in supporting the Company with its disclosures and credentials. For example, following the announcement by the Chancellor of the Exchequer in 2020 regarding the UK's plan to be the first country in the world to make TCFD (Task Force on Climate-related Financial Disclosures) aligned disclosures mandatory across the economy by 2025, Centrica began reporting on this in its 2020 annual report and has enhanced disclosure further having fully complied with the framework in 2021 annual reporting and with the Listing Rules (see pages 33 to 35). The TCFD importantly provides information to investors about the action companies are taking to mitigate the risks of climate change, as well as be transparent about the way in which they are governed. To ensure we remain in-line with best practice as we move to net zero, the SESC supports Centrica's decision to join the UN's global campaign, 'Race to Zero'.

In support of these efforts to create a more inclusive and sustainable future, the Committee also reviewed the Company's role in, and contribution to, communities through its charitable partnerships (see page 31). The Committee additionally supported an enhanced Responsible Sourcing Strategy; continued its focus on the monitoring and improvement of the Company's reputation; reviewed the Company's approach to the Modern Slavery Act (MSA) and recommended the adoption of the MSA Statement to the Board.

As part of a key standing item on the agenda, the Committee furthermore maintained its focus on safety performance. This includes, improving the business' approach to benchmarking; understanding the root causes for any underperformance; and the associated remedial actions. The Committee expects to see the further impact, and benefit, of the remedial actions on Group health and safety performance in 2022.

The Committee considered stakeholders' views on various matters. In particular, customer insights regarding net zero; investor expectations on the Climate Transition Plan; and perspectives of Government and Regulators in respect of joining the Race to Zero.

Committee effectiveness

I believe the Committee has continued to perform effectively with renewed focus and enhanced responsibilities. Read more about our Committee's effectiveness on page 58.

Heidi Mottram
on behalf of the Safety, Environment and Sustainability Committee
23 February 2022

Read more about our safety performance on Pages 15 and 36

Read more about Our Code and the Speak Up helpline on Page 36 or centrica.com/ourcode

Read more about our People & Planet Plan's net zero goals on Pages 28 to 35

Remuneration Report

Dear Shareholder

This is my second Remuneration Report since joining the Board in June 2020. Last year I outlined the progress the Executives were making in starting to build the foundations to transform the Centrica business. This year, turning around our business against the backdrop of the ongoing COVID-19 pandemic, and an increasingly volatile energy market was never going to be easy, but I believe our leaders and colleagues have responded well to these challenges.

Reflecting on the year, it's pleasing to see the progress we've made to simplify and stabilise our company. We've materially strengthened the balance sheet, eliminating net debt by completing the Direct Energy disposal for £2.7bn and by focusing on operational cash generation. We took some big steps towards a simpler business model by continuing to delayer the organisation and by splitting the British Gas business into separate Services & Solutions and Energy businesses to allow better focus on the different challenges faced by each business.

We've also taken a major step towards moving away from exploration and production by agreeing the sale of the Norwegian assets in Spirit Energy in a way which removes a substantial element of decommissioning liabilities and keeps assets that may serve the UK on its green journey. This is a great example of delivering the right outcome for shareholders and wider stakeholders.

Modernising the complex legacy of colleagues' terms and conditions has proved the most challenging step in our transformation to date. The scale of change needed to permit more customer focussed ways of working was always going to be difficult. We sought to be fair and reasonable but recognise and regret the impact on some of our colleagues and customers.

Through this challenging year the Executive team has continued to promote quality engagement with our colleagues which is crucial to delivering our turnaround. We set ourselves a very stretching cumulative target of increasing engagement by 30 percentage points over three years. I am delighted that we have managed to increase engagement to 55% at the end of the fourth quarter, an increase of 13 percentage points. Our target remains to get to 70% by the end of 2023.

It was also pleasing to see that over 2021, the company's total shareholder return grew significantly, rising by 53% compared to the FTSE 100 index increasing 18% over the same time period, as all the various changes start to restore the company's value.

Performance outcomes for the year

The Centrica leadership team has navigated a volatile wholesale market, rescuing over 700,000 customers from failed suppliers, whilst continuing to face the disruption caused by the global pandemic. The assessment of annual performance for this team is 75% based on business performance and the remaining 25% based on strategic and individual targets. The business element for the year was split equally between a financial target, earnings per share (EPS), and the outcome of the balanced business scorecard. EPS for 2021 was 4.1p which was the level set by the Committee for maximum achievement. The balanced scorecard has 9 financial measures and 6 strategic measures – of these 15 measures, 12 were met and 3 were missed.

Despite the raw numbers supporting a higher number, management and the Committee agreed that a downward adjustment was appropriate, given the uplift from higher commodity prices. Therefore, the Committee has agreed the group performance outcome is between target and maximum. This results in an outcome for the Executive Directors of 150% of maximum for the financial element of the annual bonus plan.

Two Executive Directors were eligible to be considered for a bonus payment in respect of 2021, the Group Chief Executive, Chris O'Shea and the Group Chief Financial Officer, Kate Ringrose.

Our Group Chief Executive, Chris O'Shea, has driven the performance of the business and the Board considered that he had performed exceptionally well throughout 2021. In addition to the achievements set out above, Chris has been instrumental in reshaping the business, divesting Direct Energy at the beginning of the year and progressing the planned disposal of Spirit Energy's Norwegian business towards the end of the year. This has allowed Chris to focus on the core businesses, establishing a new leadership team who will drive performance in the remaining businesses through 2022. Chris has also played a key role working with stakeholders to ensure the smooth transition of customers from failing suppliers. Based on an assessment of personal objectives over the year which covered leadership, balance sheet stability, repositioning the remainder of the portfolio and driving a performance culture, the Committee determined that an outcome of above target, at 150%, under the personal objectives element of the annual bonus was appropriate.

Our Group Chief Financial Officer, Kate Ringrose, has settled into her new role well in what has been a very volatile year, building on her deep, detailed knowledge of the business. She has been a key contributor to the leadership team and has done well in establishing herself as a credible CFO both with the Board and the financial markets. Kate's enthusiasm, willingness to listen, and ability to act on feedback augurs well for 2022.

Based on an assessment of personal objectives over the year which covered leadership, building strength in the finance function, ensuring the balance sheet finished the year in a strong position maintaining the credit rating and pension covenant ratings, Kate performed strongly. Active management of credit and cash flexibility have been used to good effect in the volatile commodity environment and the Committee determined that an outcome of above target, at 125%, under the personal objectives element of the annual bonus was appropriate.

Upon careful consideration, and review of the external environment including the increasing energy costs to our customers, Chris has decided that his own bonus should not be paid given the hardships faced by our customers. The Committee and I would like to thank Chris for this selfless act. This is particularly commendable as he earned a bonus for 2019 that was not paid as the pandemic emerged and he would have been entitled to a payment last year in respect of 2020 which was also not paid.

However, it is important to recognise that this is not sustainable and the Committee is clear that if performance justifies a bonus in the coming year it is our intention to pay that bonus.

Long Term Incentive Plan (LTIP) 2019-2021

For the third year in succession, the Committee exercised its discretion to reduce to zero the overall vesting of the 2019-2021 LTIP award as, although a number of the non-financial KPI targets had been achieved, the financial measures were not met over the three-year performance period.

New Executive Remuneration Policy

In last year's letter to shareholders, I noted that it was our intention to submit a Policy for approval at the 2021 AGM that was largely unchanged, with the exception of small changes to reflect the UK Code requirements and a better alignment of our Policy with best practice. I am pleased that we received a vote in favour of this Policy of over 94%. We committed to conduct a thorough review of remuneration for the Executive Directors and the senior leadership team during 2021 and to seek approval for a new Policy at the 2022 AGM.

Over the past year, the Committee has undertaken a detailed review of Executive Director remuneration, in particular the long-term incentive structure.

At the outset the Committee considered a number of alternative long-term remuneration structures. Over the summer, we carried out an initial consultation with our major shareholders. To ensure we received appropriate input as we determined the best approach, we included all the models but guided our shareholders to two principal models for the long-term incentive. These were: retaining the current structure of long-term share awards with a three-year performance period and a maximum award of 300% of salary for the Group Chief Executive or introducing a restricted share plan with annual awards of up to 150% of salary for the Group Chief Executive. The latter would provide an exceptional application of discretion to avoid the circumstances of a full payment when the experience of stakeholders was very poor. The conversations with shareholders were immensely helpful to guide our decision-making process and I am very grateful for all the views provided.

A number of our shareholders are keen advocates of the use of restricted shares providing the important design considerations around a reduction in quantum of 50% and an acceptable vesting and holding period are applied.

We believe that this needs to be coupled with an accelerated build-up of shareholding where the Executive Directors would be required to hold all incentive shares, post-tax, until their shareholding requirement was reached. The shareholding requirements themselves are set at levels above the value of an allocation of shares and above market practice for businesses of our size.

Having taken into account the input provided by our major shareholders during our initial consultation, the Committee determined that a Restricted Share Plan (RSP) was the most appropriate structure for Centrica's Executive Directors going forward.

After further work and consideration, the Committee refined the proposed Policy detail and in November, we provided a more final version of our proposals to our major shareholders for their input and feedback. We, once more, received very helpful contributions to allow us to progress and finalise the Policy.

Proposed long-term incentive structure

It is proposed that the RSP will vest over three years, subject to a performance underpin framework, with a further two year holding period.

Our rationale for this approach is:

- As we restore shareholder value and work to deliver growth in both customers and profit, the RSP would ensure a large proportion of our executives' pay is based on direct and uninhibited share price movement. The simplification of pay in this manner also aligns to our overall strategic goal of simplification across all aspects of the business.
- Potential pay-outs from restricted shares are far less variable than conventional long-term incentives. We believe this is more appropriate given the regulatory environment within which Centrica operates with a more limited acceptable range of performance outcomes than in many other companies.
- The next few years are likely to represent significant uncertainty for the business, as we continue to reshape, re-prioritise and drive towards net zero. Setting long-term performance targets within this context that appropriately accommodate this volatility and uncertainty will be very challenging.
- We operate an RSP for our colleagues below senior management and this approach therefore creates alignment between our Executive Directors and our senior colleagues.

It is proposed that vesting be contingent on the satisfaction of a discretionary underpin, assessed over a three-year period.

In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance will include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance will include a range of operational and strategic measures critical to the Company's long-term sustainable success and progress towards our Climate Transition Plan.

Other changes to the Remuneration Policy

The Committee proposes to make the following changes to shareholding requirements to further increase alignment between our Executive Directors and shareholders:

- Executive Directors will be required to hold 100% of vested incentive shares until the shareholding requirement is met, increased from 75% under the current Policy. The current shareholding requirement of 300% of salary for the Group Chief Executive is above comparative market levels but will remain as is. The shareholding requirement for the Group Chief Financial Officer will be set at 200% of salary.
- The post-employment shareholding requirement will be increased to 100% of the in-role shareholding requirement (or actual shareholding on departure if lower) for a period of 2 years post-employment, increased from 50% in the current Policy.
- Only shares earned from vested incentives will be included within the post-employment shareholding requirement so as not to disincentivise Executives from purchasing additional shares in the company.

We believe the proposed changes to our Policy are in the best interests of our shareholders and will allow us to appropriately motivate and recognise executive performance within the context of the challenges ahead of us, whilst ensuring that their experience is aligned to yours.

The Committee is dedicated to an open and transparent dialogue with our shareholders and therefore I welcome views on any part of our remuneration arrangements.

Carol Arrowsmith
on behalf of the Remuneration Committee
23 February 2022

Role of the Remuneration Committee

The role of the Committee continues to be ensuring that the Directors, the Senior Executive Group and the Chairman of the Board are appropriately rewarded, through making recommendations regarding remuneration policy and framework. The Terms of Reference further extend the Committee's remit to include greater responsibility for understanding how pay and conditions align across the Group.

The Committee monitors and reviews the effectiveness of the Remuneration Policy and considers its impact and compatibility with remuneration policies across the wider workforce. To facilitate this remit, the Committee is provided with information and context on pay, benefits and incentive structures in place across the Group to support its decision-making.

Membership and attendance

The Committee is chaired by Carol Arrowsmith, an Independent Non-Executive Director. Each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration.

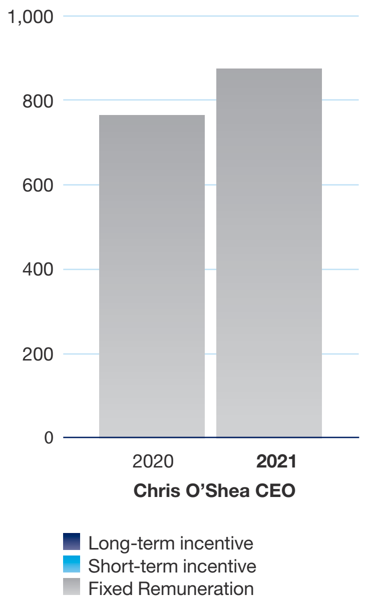
The Chairman of the Board, the Group Chief Executive, the Chief People Officer and the Group Head of Reward are normally invited to attend each Committee meeting to provide advice and guidance, other than in respect of their own remuneration.

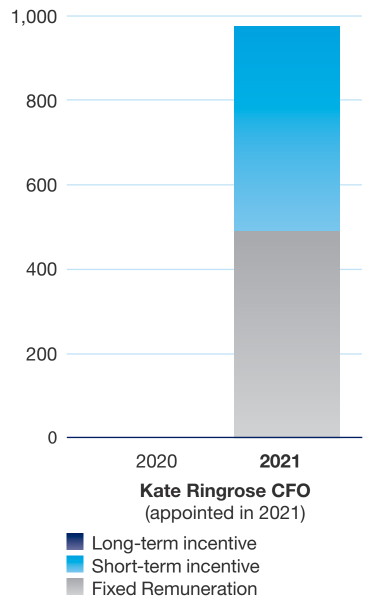
Directors' Annual Remuneration Report

Directors' remuneration in 2021

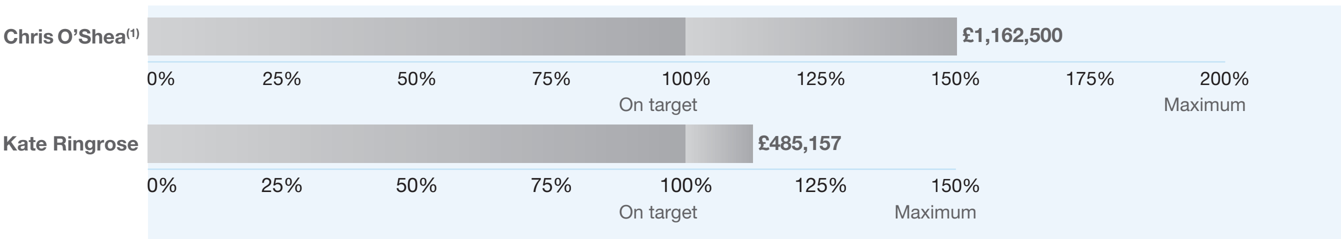
This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2021.

Summary of total remuneration received in 2020 and 2021 (£000)





Annual Incentive Plan Outcomes for 2021



(1) As disclosed on page 71 and 72, after careful consideration, Chris O'Shea has decided that his own bonus should not be paid given the hardships faced by our customers.

Single figure for total remuneration (audited)

Executives £000	Salary/ fees	Bonus (cash)	Bonus (deferred)	Benefits(1)	LTIPs(2)	Pension(3)(4)	Total	Total fixed remuneration	Total variable remuneration
2021									
Chris O'Shea	775	–	–	18	–	82	875	875	–
Johnathan Ford(5)	24	–	–	1	–	2	27	27	–
Kate Ringrose(6)	432	243	243	15	–	44	977	491	486
Total	**1,231**	**243**	**243**	**34**	**–**	**128**	**1,879**	**1,393**	**486**
2020									
Chris O'Shea	659	–	–	25	–	81	765	765	–
Johnathan Ford(5)	275	–	–	10	–	28	313	313	–
Kate Ringrose(6)	–	–	–	–	–	–	–	–	–
Total	934	–	–	35	–	109	1,078	1,078	–

(1) Taxable benefits include car allowance, health and medical benefits. Non-taxable benefits include matching shares received under the Share Incentive Plan (SIP). Both taxable and non-taxable benefits are included in the table.

(2) The LTIP award for the 2019-21 performance period will lapse. Further details are set out on page 76.

(3) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Chris O'Shea and Kate Ringrose have been included in this table as if CUPS DC was a cash balance scheme. This includes a deduction in respect of an allowance for CPI inflation on the opening balances of 0.7% in 2021 (1.5% in 2020).

(4) Johnathan Ford received a salary supplement in lieu of a pension contribution, of 10% of base salary.

(5) Johnathan Ford stepped down from the Board on 18 January 2021.

(6) Kate Ringrose was appointed to the Board on 18 January 2021.

Single figure for total remuneration (audited)

£000	Salary/fees 2021	Salary/fees 2020	Total 2021	Total 2020
Non-Executives				
Scott Wheway	**410**	343	**410**	343
Carol Arrowsmith	**93**	51	**93**	51
Joan Gillman[(1)]	**10**	93	**10**	93
Stephen Hester	**93**	93	**93**	93
Pam Kaur	**73**	73	**73**	73
Heidi Mottram	**93**	73	**93**	73
Kevin O'Byrne	**98**	98	**98**	98
Total	**870**	824	**870**	824

(1) Joan Gillman stepped down from the Board on 8 February 2021.

Payments for loss of office (audited)

No payments for loss of office were made in 2021.

Base salary/fees

Base fees for the Group Chief Executive (CEO) and the Group Chief Financial Officer (CFO) were reviewed by the Committee in February 2022. At that time, the expected average level of salary increases across the wider UK workforce was 2.5% with some restrictions in place for colleagues who were currently paid above the median of the salary range for their job profile, or for collective colleagues who were currently paid above the payspine rate for their role.

Taking into consideration the increases across the wider workforce, and salary benchmarking data for similar Executive roles commensurate in size and complexity with Centrica, the Committee determined that the salary for the CEO would be increased by 2.5% to £794,375 and the salary for the CFO would be increased by 2.5% to £461,250.

Non-Executive Director fee levels were reviewed in December 2021 and it was agreed that no changes would be made to the base fees or the Committee Chairman fees.

Base fees for Non-Executives were last increased on 1st January 2016 and will continue to be reviewed at least every two years.

Bonus – Annual Incentive Plan (AIP)

In line with the Remuneration Policy, 75% of the award was based on a mix of financial measures based on Centrica's priorities for 2021 and 25% was based on strategic and personal objectives.

The Committee agreed that half of the financial performance measures for 2021 would be based on an Earnings per Share (EPS) target with a defined threshold, target and maximum, as follows:

	Threshold	Target	Max	Outcome
EPS	2.1p	3.1p	4.1p	4.1p

The EPS outcome was 4.1p which was the level for maximum achievement set by the Committee.

In addition, the Committee agreed a balanced scorecard for the remaining financial element of the annual bonus plans plus additional measures to be considered in the determination of individual strategic objectives for the AIP. It was agreed that there would be no formula to translate the scorecard to a bonus outcome and no formal weighting of individual measures. Instead, the Committee, with management, would consider the overall outcome against the balanced scorecard to determine the remaining half of the financial measures for the AIP.

The balanced scorecard of measures, targets and outcomes were as follows:

	Measure	Target	Outcome	
Group	Adjusted Operating Profit	£522m	£948m	▲
	Free Cash Flow	£633m	£873m[(1)]	▲
	Net (Debt)/ Cash	£(726)m	£680m	▲
	Credit Rating	Maintain credit rating required to support business activities	Maintained and negative watch removed	▲
Bord Gáis	Cost to serve	€84 per customer	€90	▼
BG S&S	Cost per customer	£329 per customer	£338	▼
BG Energy	Cost to serve	£101 per customer	£93	▲
CBS	Order Intake	£463m	£490m	▲
EM&T	Opex: GM Ratio	60%	52%	▲

(1) Free cash flow has been adjusted downwards to reflect tax payable in 2022 for 2021 profits, relating to the upstream business.

The Committee carefully considered the maximum result against the EPS target, and the achievement of the majority of the balanced scorecard measures, and determined that a downward adjustment to the overall outcome was appropriate, given the uplift received from higher commodity prices. Therefore, the Committee agreed that the group performance outcome would be halfway between target and maximum.

Each Executive had a set of stretching personal objectives which included key non-financial performance indicators (KPIs) that were critical to the success of the business in 2021. The KPIs were cascaded to the business and functional leaders to ensure a strong line of sight to key priorities through the organisation. The KPI metrics and outcomes were as follows:

Measure	Targets	Outcome	
Customer numbers	9,778,000 unique customers	10,067,000 unique customers	▲
Colleague engagement	Improve by 10 percentage points	Up 13 percentage points	▲
Transformation	Successfully conclude the Terms and Conditions change and the industrial relations dispute	Successfully concluded albeit with some industrial action	▲
Transformation	Progress the migration of UK energy customers from SAP to the new energy platform	Migration paused due to planning issues	▼
Pension Valuation	Progress the 2021 Triennial Pension Valuation in a way which balances the interests of the Company, members and pensioners	Good progress made	▲
M&A	Deliver M&A programme in a way that maximises value for the Company and advances the strategic simplification of Centrica	Completion of Direct Energy and Peterborough Power Station Sale and progress on delivery of Spirit transaction	▲

In addition to the performance set out above, Chris O'Shea has been instrumental in reshaping and simplifying the business. He has established a new leadership team that will drive performance in the remaining core businesses through 2022 and beyond. Chris has also played a key role working with stakeholders to ensure the smooth transition of customers from failing suppliers. Based on an assessment of achievement against strategic and personal objectives during the year, including leadership, balance sheet stability and driving a performance culture, the Committee determined that an outcome of above target, at 150% of maximum, under the personal objectives element of the annual bonus was appropriate. The overall bonus outcome for the CEO was therefore a payment of £1,162,500. As reported in the Chairman's letter, Chris has decided that this bonus should not be paid given the hardships faced by our customers as a result of the increasing energy costs.

Kate Ringrose has quickly established herself as a credible CFO both with the Centrica Board and the financial markets. During the year she strengthened the finance function, ensuring the balance sheet finished the year in a strong position and credit ratings were maintained. The management of cash and credit flexibility were optimised in the volatile commodity environment. Based on an assessment of achievement against strategic and personal objectives during the year, the Committee determined that an outcome of above target, at 125% of maximum, under the personal objectives element of the annual bonus was appropriate. The overall bonus outcome for the CFO was therefore a payment of £485,157.

Long-term incentive awards due to vest in 2022

Performance conditions

The performance conditions relating to the three-year period ending in 2021 are set out below, together with an explanation of the achievement against these performance conditions. Vesting between stated points is on a straight-line basis.

Financial targets and outcomes

Measures	Weightings	Targets: Threshold (25%)	Targets: Maximum (100%)	Outcomes
Relative Total Shareholder Return (TSR)	33.3%	FTSE 100 median	FTSE 100 upper quartile	Below median
Underlying adjusted operated cash flow (UAOCF) growth	22.2%	CAGR 2%[1]	CAGR 5%[1]	-13.9%
Absolute aggregate Economic Profit (EP)	22.2%	£1,625m	£2,125m	£673m
Non-financial KPI improvement	22.2%	See below	See below	See below

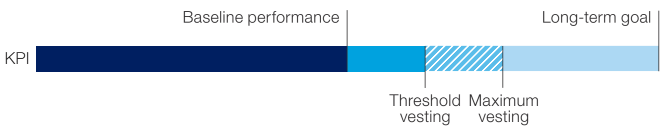
(1) Compound annual growth rate.

Centrica's TSR during the three-year performance period was -49.8%, compared with the required threshold level of 19.9%, therefore the TSR portion of the LTIP award granted in 2019 will not vest.

Both the UAOCF growth and the absolute aggregate EP threshold targets were not met and therefore these two portions of the LTIP award granted in 2019 will not vest.

Non-financial KPI targets and outcomes

KPI improvement relates to closure of the gap between performance at the start of the period (baseline performance) and our long-term aspirational goals which are generally aligned with upper quartile market performance:



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting. The KPI measures, targets and outcomes for the 2019-21 cycle were:

	Baseline performance 2021	Targets: Threshold	Targets: Maximum	Targets: Long-term goal	Outcomes
Safety					
Total recordable injury frequency rate (TRIFR)[1]	**1.04**	0.85	0.45	0.25	1.07
Tier 1 and Tier 2 process safety event frequency rate[1]	**0.00**	0.073	0.065	0.05	0.20
Customer satisfaction Aggregate brand NPS across our customer businesses weighted by customer numbers	**+8.7**	+16.33	+17.55	+16	+13.0
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,040**	3,041	2,653	2,159	4,929
Colleague engagement (percentage favourable)	**41**	51.5	60.0	77	55

(1) Per 200,000 hours worked.

Overall performance outcome

Although a number of the non-financial KPI targets were achieved over the three-year period, the Committee exercised its discretion to reduce to zero the overall vesting of the 2019-21 LTIP award as the financial measures were not met over the performance period against each measure.

Pension

In 2020, it was agreed that the pension contributions for the new and existing Executive Directors would be 10% of base salary to align them with the wider UK workforce. In 2021 the average pension contribution rate was 10-13% of base salary.

Chris O'Shea and Kate Ringrose participated in the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC).

Notional contributions to the CUPS DC scheme have been included in the single figure for total remuneration table as if it was a cash balance scheme and therefore notional investment returns for the year have also been included. The notional pension fund balances for each Executive are disclosed below.

CUPS DC Scheme[1]	Total notional pension fund as at 31 December 2021 £	Total notional pension fund as at 31 December 2020 £
Chris O'Shea[1]	312,710	229,466
Kate Ringrose[1][2]	43,670	–

(1) The retirement age for the CUPS DC scheme is 62.
(2) Kate Ringrose joined on 18 January 2021.

Executive Director recruitment and terminations

Johnathan Ford

Johnathan Ford resigned from his role on 18 January 2021 and Centrica waived its right to contractual notice. Therefore, all remuneration entitlement ceased from his leave date of 31 January 2021, with no further payments due to be made after this date. He will not be entitled to receive a bonus payment for 2021.

Kate Ringrose

On 18 January 2021, Kate Ringrose was appointed Group Chief Financial Officer. Her remuneration package consisted of a base salary and variable incentive arrangements which were in line with Centrica's remuneration policy and practice. The base salary was set at £450,000 per annum and the pension contribution was set at 10% of base salary. It was confirmed that the annual bonus maximum award would be 150% of salary and the initial annual LTIP grant would be 175% of salary.

Directors' interests in shares (number of shares) (audited)

The table below shows the interests in the ordinary shares of the Company for all Directors on the Board at 31 December 2021.

For Executive Directors only, the minimum shareholding requirement is 300% of base salary. The achievement against the requirement is shown below.

Executive Directors have a period of five years from appointment to the Board, or from any material change in the minimum shareholding requirement, to build up the required shareholding. Given the remuneration decisions that have been taken over the past three years, the Committee recognises that achieving the level of shareholding, at 300% of salary, is challenging.

A post-cessation shareholding requirement of 50% of the full shareholding requirement (or full actual holding if lower) is applicable for two years post-cessation.

	Shares owned as at 31 December 2020[1]	Shares owned as at 31 December 2021[1]	Minimum shareholding guideline (% of salary)	Achievement as at 31 December 2021 (% of salary)[2]	Shares owned (subject to continued service) as at 31 December 2021[3]
Executives					
Chris O'Shea[4]	489,251	580,574	300	54	792
Kate Ringrose[4]	–	40,796	300	6	792

	Shares owned as at 31 December 2020[1]	Shares owned as at 31 December 2021[1]
Non–Executives		
Scott Wheway	110,187	110,187
Carol Arrowsmith	–	49,286
Stephen Hester	20,700	20,700
Pam Kaur	–	–
Heidi Mottram	–	–
Kevin O'Byrne	40,000	40,000

(1) These shares are owned by the Director or a connected person and they are not, save for exceptional circumstances, subject to continued service or the achievement of performance conditions. They include for Executives shares purchased in April 2019 with deferred AIP funds which have mandatory holding periods of three years and which will be subject to tax at the end of the holding periods.
(2) The share price used to calculate the achievement against the guideline was 71.50 pence, the price on 31 December 2021.
(3) Shares owned subject to continued service include SIP matching shares that have not yet been held for the three-year holding period.
(4) During the period from 1 January 2022 to 10 February 2022 both Chris O'Shea and Kate Ringrose acquired 435 shares through the SIP.

Executive Directors interests in shares (number of shares) subject to Company performance conditions

The table below shows the performance share awards that were granted in respect of 2020 and 2021 to Executive Directors under the LTIP. These awards are subject to the achievement of Company performance conditions before vesting and there is a mandatory two-year holding period following the vesting date before the shares can be released.

	Plan	Number of shares	Basis of award % of salary	Face value of award £000	Vesting date	Release date
Chris O'Shea	LTIP	3,522,471	250%	1,938	May 2024	May 2026
	LTIP	4,431,948	300%	2,325	June 2024	June 2026
Kate Ringrose	LTIP	1,501,143	175%	788	June 2024	June 2026

Share awards granted in respect of 2021 (audited)

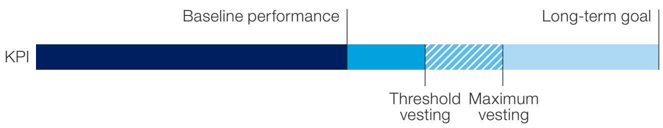
The following targets will apply to the LTIP awards for the three-year performance period 2021-23.

		Targets	
Measures	Weightings	Threshold (25%)	Maximum (100%)
TSR	33.3%	median	upper quartile
Cumulative EPS	22.2%	7.5p	10.5p[(1)]
Cash conversion	22.2%	EBITDA to OCF of 85%	EBITDA to OCF of 100%
Non-financial KPI improvement	22.2%	See below	See below

(1) 3 year cumulative EPS

Vesting between stated points will be on a straight-line basis.

KPI improvement relates to closure of the gap between performance at the start of the period (current performance) and our long-term aspirational goals which are generally aligned with upper quartile market performance:



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting.

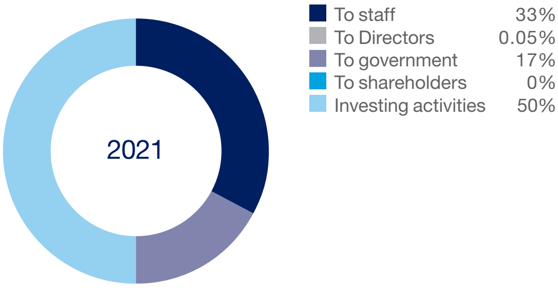
The KPI measures and targets are:

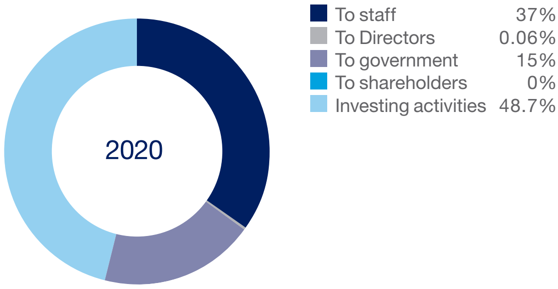
		Targets		
	Current performance	Threshold	Maximum	Long-term goal
Safety				
Total recordable injury frequency rate (TRIFR)[(1)]	**1.03**	0.85	0.65	0.25
Customer satisfaction				
Aggregate brand NPS across our customer businesses weighted by customer numbers	**+8.69**	+10.52	+12.35	+16
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	**3,040**	2,820	2,600	2,159
Colleague engagement	**41%**	45%	54%	77%

(1) Per 200,000 hours worked.

2021 cash flow distribution to stakeholders

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart, the Directors' aggregate total remuneration for the year equates to 0.05% (2020: 0.06%) of the Group's operating cash flow.





Annual percentage change in remuneration of directors and employees

The table below shows the percentage changes (on a full-time equivalent basis) in the Executive and Non-Executive Directors' remuneration between the financial years ended 31 December 2020 and 31 December 2021 compared to the amounts for full-time employees of the Group for each of the following elements of pay:

	Percentage change from 2019 to 2020			Percentage change from 2020 to 2021		
Executive Directors	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus
Chris O'Shea(1)	6.3	0	0	0	-28.0	0
Kate Ringrose(2)	–	–	–	–	–	–
Non-Executive Directors						
Scott Wheway	268.8	–	–	0	–	–
Carol Arrowsmith	–	–	–	0	–	–
Joan Gillman	0	–	–	0	–	–
Stephen Hester	0	–	–	0	–	–
Pam Kaur	0	–	–	0	–	–
Heidi Mottram(3)	–	–	–	27.8	–	–
Kevin O'Byrne	0	–	–	0	–	–
Average per employee (excluding Directors)(4)	0	1.1	236.4	1.77	-10.27	16.25

(1) Chris O'Shea was appointed to the Centrica Board as Group Chief Financial Officer on 1 November 2018 and became interim Group Chief Executive with effect from 17 March 2020. He was appointed as Group Chief Executive on 14 April 2020. From 17 March until 31 December 2020, he elected to waive £100,000 of his salary.

(2) Kate Ringrose was appointed as Group Chief Financial Officer on 18 January 2021.

(3) Heidi Mottram was appointed SESC Chair on 1 January 2021.

(4) The comparator group includes all management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the Executive and Non-Executive Directors). There are insufficient employees in the Centrica plc employing entity to provide a meaningful comparison. The employees selected have been employed in their role for full years to give meaningful comparison. The group has been chosen because the employees have a remuneration package with a similar structure to the Executive Directors, including base salary, benefits and annual bonus. The increase in the benefits between 2019 and 2020 represents the increase in the healthcare plan costs. The increase in the bonus between 2019 and 2020 is due to the fact that cash bonuses relating to 2019 for non-customer facing employees were cancelled. The bonus number relating to 2021 is an estimate of the payments due to be made in March/April 2022.

The chart below shows the ratio of remuneration of the CEO to the average UK employee of the Group.

CEO pay ratio	25th percentile	50th percentile	75th percentile
2021	29:1	24:1	15:1
2020	32:1	15:1	14:1
2019	34:1	29:1	22:1
2018	72:1	59:1	44:1

For 2020 the CEO total remuneration figure includes the single figure chart combined earnings of both Iain Conn and Chris O'Shea for the period that they were in the CEO role during 2020.

The Company has used its gender pay gap data (Option B in the Directors' Reporting Regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions across the UK workforce. This is deemed the most appropriate methodology for Centrica given the different pension and benefit arrangements across the diverse UK workforce. To ensure this data accurately reflects individuals at each quartile position, a sensitivity analysis has been performed. The approach has been to review the total pay and benefits for a number of employees immediately above and below the identified employee at each quartile within the gender pay gap analysis.

The annual remuneration for the three identified employees has been calculated on the same basis as the CEO's total remuneration for the same period in the single figure table on page 74 to produce the ratios.

The ratios in 2021 are broadly in line with the ratios for 2020. The 25th percentile is now mainly customer experience roles as the engineer roles previously at this level have moved to the median which has meant a change at both the 25th percentile and 50th percentile.

Pay for performance

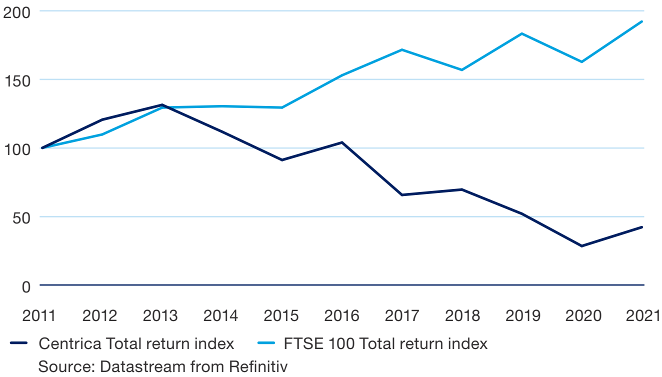
The table below shows the CEO's total remuneration over the last ten years and the achieved annual short-term and long-term incentive pay awards as a percentage of the plan maximum.

	Chief Executive single figure for total remuneration £000	Annual short-term incentive payout against max opportunity %	Long-term incentive vesting against max opportunity %
Chris O'Shea			
2021	875	0	0
2020	765	0	0
Iain Conn			
2020	239	0	0
2019	1,186	0	0
2018	2,335	41	18
2017	1,678	0	26
2016	4,040	82	0
2015	3,025	63	0
Sam Laidlaw			
2014	3,272	34	35
2013	2,235	50	0
2012	5,709	61	67

For 2020 the single figure for total remuneration for both Iain Conn and Chris O'Shea are shown. The total remuneration figure for Chris O'Shea includes his earnings during 2020 as CFO and CEO.

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the 10-year period to 31 December 2021. The FTSE 100 Index has been chosen as it is an index of similar-sized companies and Centrica has been a constituent member throughout the majority of the period.

Total return indices – Centrica and FTSE 100



Fees received for external appointments of Executive Directors

There were no fees received for external appointments. Kate Ringrose represented Centrica as a non-executive director of EDF Energy Nuclear Generation Group Limited and Lake Acquisitions Limited. She received no fees or remuneration relating to these external appointments in 2021.

Relative importance of spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buyback for the years ended 31 December 2020 and 2021. There are no share buyback arrangements.

	2021 £m	2020 £m	% Change
Dividends	**0**	0	0
Staff and employee costs[1]	**1,247**	1,577	-21

(1) Staff and employee costs are as per note 5 in the notes to the Financial Statements.

Payments to past Directors (audited)

During 2021, no payments were made to past Directors with the exception of the payments disclosed in the single figure for total remuneration table on page 74.

Advice to the Remuneration Committee

Following a competitive tender process, PwC was appointed as independent external adviser to the Committee in May 2017.

PwC also provided advice to Centrica globally during 2021 in the areas of employment taxes, regulatory risk and compliance issues and additional consultancy services.

PwC's fees for advice to the Committee during 2021 amounted to £166,150 which included the preparation for and attendance at Committee meetings. The fees were charged on a time spent basis in delivering advice that materially assisted the Committee in its consideration of matters relating to executive remuneration.

The Committee takes into account the Remuneration Consultants Group's (RCG) Code of Conduct when dealing with its advisers. PwC is a member of the RCG and the Committee is satisfied that the advice it received during the year was objective and independent and that the provision of any other services by PwC in no way compromises their independence.

Statement of voting

Shareholder voting on the resolutions to approve the Directors' Remuneration Policy, and the Directors' Remuneration Report, put to the 2021 AGM, was as follows:

Directors' Remuneration Policy

Votes for	%	Votes against	%
3,452,985,721	94.30	208,890,057	5.70

38,449,626 votes were withheld.

Directors' Remuneration Report

Votes for	%	Votes against	%
3,516,916,505	95.16	178,887,714	4.84

4,457,830 votes were withheld.

Implementation in the next financial year

Base salaries for Executive Directors were reviewed in February 2022 and the Committee determined that an increase of 2.5% would be applied to the salary of the Group Chief Executive and the Group Chief Financial Officer on 1st April 2022. This aligns with increases being awarded across the wider workforce.

AIP awards will be in line with the limits set out in the Remuneration Policy table, not exceeding 200% of base salary. At least 75% of the award will be based on a mix of financial measures based on Centrica's priorities for the forthcoming year and up to 25% will be based on strategic and personal objectives. The financial targets will align with the Group Annual Plan.

The targets are considered commercially sensitive until the end of the financial year and will therefore be disclosed retrospectively in the Remuneration Report for 2022.

Subject to the approval of the new Remuneration Policy, set out on pages 82 to 94, at the AGM in 2022, Restricted Share Plan (RSP) awards will be granted to the Executives. It is proposed that the awards will be 150% of salary for the Group Chief Executive and 125% of salary for the Group Chief Financial Officer.

While our previous policy stated the maximum opportunity under the Long-Term Incentive Plan (LTIP) was 300% of salary for all Executive Directors, in practice, in both 2018 and 2019, CFO LTIP awards were 250% of annual salary. In 2020 there was no incumbent at the point of grant.

When our CFO came into role the first LTIP award granted in 2021 of 175% of salary was set at a level below market and below historic Centrica CFO levels. Had we proposed to retain the LTIP, the Committee intended to return to the historic approach to the LTIP award level of 250% of salary. To this end, the Committee determined the 50% discount be applied to this award level resulting in a RSP award level of 125% of salary.

The RSP awards will vest after three years, subject to a performance underpin, with an additional two-year post-vesting holding period.

It is proposed that vesting will be contingent on the satisfaction of a discretionary underpin, assessed over a three-year period. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period, as well as any material risk or regulatory failures identified. Financial performance will include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance will include a range of operational and strategic measures critical to the Company's long-term sustainable success.

For the 2022 award, the factors that the Committee will consider include, but are not limited to the following:

- a review of overall financial performance over the three-year vesting period;
- whether there have been any sanctions or fines issued by a Regulatory Body (participant responsibility may be allocated collectively or individually);
- whether a major safety incident has occurred which may or may not have consequences for shareholders;
- whether there has been material damage to the reputation of the Company (participant responsibility may be allocated collectively or individually);
- whether there has been failure to make appropriate progress against our Climate Transition Plan which sets out our ambition to be a net zero business by 2045 and help our customers be net zero by 2050;
- return on capital with reference to the cost of capital;
- TSR performance over the vesting period, including with reference to the wider energy sector;
- management of customer numbers over the vesting period; and
- progress against broader ESG commitments.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Raj Roy
Group General Counsel & Company Secretary
23 February 2022

Director's Remuneration Policy

The Centrica Remuneration Policy was last approved by shareholders at the 2021 AGM. This was largely unchanged from the Policy approved in 2018, however at that time we indicated our intention to conduct a thorough review of remuneration for the Executive Directors and the senior leadership team during 2021.

This section contains Centrica's proposed Directors' Remuneration Policy (Policy) that will govern and guide the Group's future remuneration payments. The Policy described in this section is intended to apply for three years, subject to shareholder approval at Centrica's 2022 AGM.

Objectives of the Policy

The proposed Policy aims to deliver remuneration arrangements that:

- attract and retain high calibre Executives in a challenging and competitive global business environment;
- place strong emphasis on both short-term and long-term performance;
- are strongly aligned to the achievement of strategic objectives and the delivery of sustainable long-term shareholder value through returns and growth; and
- seek to avoid creating excessive risks in the achievement of performance targets.

Key changes to the Policy

In reviewing the Policy, the Committee consulted extensively with shareholders and aimed to devise a remuneration structure that would support our strategic direction, enable us to engage our leadership team in the continuing transformation of Centrica and support our requirement for a team capable of making those changes, whilst addressing the challenges our company and industry face going forward.

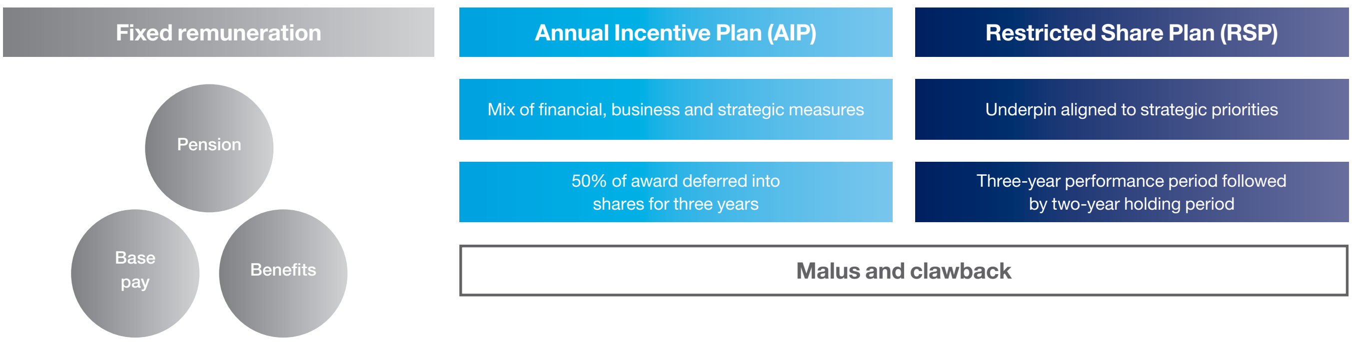
Further details on the rationale for the proposed changes are described in the Committee Chair's letter on pages 71 to 73. Details on how the Policy will be implemented in the coming financial year are provided on pages 82 to 94.

The main change to the Policy is the replacement of the Long Term Incentive Plan (LTIP) with a Restricted Share Plan (RSP), which reflects a reduction in quantum and for which vesting three years from grant is subject to the assessment of an underpin. Awards are subject to a two-year post-vest holding period. Further details are set out on page 85.

In addition to the above, the Committee will make the following changes to shareholding requirements to further increase alignment between our Executive Directors and shareholders:

- Executive Directors will be required to hold 100% of vested incentive shares (net of tax) until the shareholding requirement is met, increased from 75% under the current Policy. The current shareholding requirement of the CEO of 300% of salary is above comparative market levels and will remain as is. The shareholding requirement for the CFO will be set at 200% of salary.
- The post-employment requirement will be increased to 100% of the in-role shareholding requirement (or actual shareholding on departure if lower) for a period of 2 years post-employment, increased from 50% in the current Policy.

Summary of Policy design



How the policy links to our strategy

Our near-term strategic objectives are set out on page 11.

"We are focused on turning Centrica around resulting in a stronger core business with a robust balance sheet enabling us to build on our longer-term growth ambitions in the areas in which we have distinctive capabilities – energy supply, services and solutions, energy trading, optimisation and energy assets."

Our revised policy has been designed to support our strategic direction, to enable us to engage our leadership team in the continuing transformation of Centrica.

An RSP is the most appropriate incentive vehicle for our Executive Directors as it reduces the upper limit of payment and is aligned with our goal to simplify all aspects of our business. Potential payouts from restricted shares are far less variable than conventional long-term incentives.

As we restore shareholder value and work to deliver growth in both customers and profit, the RSP will ensure a large proportion of our Executives' pay is based on direct and uninhibited share price movement.

We operate an RSP for leaders below the most senior management and this approach therefore creates alignment between our Executives and our senior colleagues.

Remuneration Policy Table for Executive Directors

The following table summarises each element of the Remuneration Policy for the Executive Directors, explaining how each element operates and the link to the corporate strategy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Base pay/salary Reflects the scope and responsibility of the role and the skills and experience of the individual. Salaries are set at a level sufficient for the Group to compete for international talent and to attract and retain Executives of the calibre required to develop and deliver our strategy.	Base salaries are reviewed annually taking into account individual and business performance, market conditions and pay in the Group as a whole. When determining base salary levels, the Committee will consider factors including: • remuneration practices within the Group; • change in scope, role and responsibilities; • the performance of the Group; • experience of the Executive Director; • the economic environment; and • when the Committee determines a benchmarking exercise is appropriate, salaries within the ranges paid by the companies which the Committee believe are appropriate comparators for the Group.	Usually, base salary increases in percentage terms will be within the range of increases awarded to other employees of the Group. Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression/ development in the role or a significant increase in the scale or size of the role.	Not applicable.	Removal of maximum salary for Executive Directors. Salary increases will usually be in line with the other employees of the Group.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Annual Incentive Plan (AIP) Designed to incentivise and reward the performance of individuals and teams in the delivery of short-term financial and non-financial metrics. Performance measures are linked to the delivery of the Group's long-term financial goals and key Group priorities.	In line with the Group's annual performance management process, each Executive has an agreed set of stretching individual objectives for each financial year. Following the end of the financial year, to the extent that performance criteria have been met, up to half of the AIP award is paid in cash. To further align the interests of Executives with the long-term interests of shareholders, the remainder is paid in deferred shares which are held for three years. No further performance conditions will apply to the deferred element of the AIP award. Dividend equivalents may be paid as additional shares or cash. The Committee will have the discretion to adjust AIP outcome if it believes the outcome is not a fair and accurate reflection of the business' performance, the individual's personal performance and/or such other factors as the Board may consider appropriate. The exercise of this discretion may result in a downward or upward movement in the amount of AIP earned resulting from the application of the performance measures. In exceptional circumstances where the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the financial year. Any discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. Malus and clawback apply to the cash and share awards (see policy table notes).	Maximum of 200% of base salary earned during the financial year. For threshold performance, up to 25% of the maximum opportunity will pay out. For on-target performance, 50% of the maximum opportunity will pay out.	At least 75% based on a mix of financial performance and business measures aligned to Centrica's priorities for the forthcoming financial year and up to 25% based on individual objectives aligned to the Group's priorities and strategy. Performance is assessed over one financial year.	No changes to quantum. Up to 50% of the award is payable in cash and the remainder is paid in deferred shares which are held for a further three years. The majority of any short term incentive is based on a mix of financial and business measures aligned to Centrica's priorities for the forthcoming financial year and up to 25% is based on individual objectives aligned to the Group's performance and strategy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Restricted share plan (RSP) Designed to reward and incentivise the delivery of long-term performance and shareholder value creation.	RSP awards granted to Executive Directors will normally vest after three years subject to the achievement of an underpin, and are subject to a two-year post-vesting holding period during which the Executive Directors may not normally dispose of their vested shares except as is necessary to pay tax and social security contributions arising in respect of their RSP awards. Dividend equivalents are accrued during the vesting period and calculated on vesting on any RSP share awards. Dividend equivalents are paid as additional shares or as cash. An award that vests in any year may be reduced or forfeited at the Committee's discretion if it believes that the outcome is not a fair and accurate reflection of the company's overall performance, the individual's personal performance and/or such other factors as the Board may consider appropriate including but not limited to share price performance. In exceptional circumstances where the Committee believes any underpin that may have been set at the beginning of the period is no longer appropriate, the Committee has discretion to amend the underpin. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. Malus and clawback apply to the awards (see policy table notes).	The maximum opportunity for RSP awards will be 150% of salary earned during the financial year for Executive Directors.	The RSP will be subject to an underpin framework. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures over the course of the vesting period as well as any material risk or regulatory failures identified. Financial performance can include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance can include a range of operational and strategic measures critical to the Company's long-term sustainable success. The Committee may scale back the awards (including to zero) if it is not satisfied the underpin has been met.	The previous long-term incentive has been replaced with a restricted share plan. Maximum opportunity under the new plan is 150% of salary for Executive Directors (compared to 300% of salary under the previous plan). The award is subject to an underpin framework. As we restore shareholder value and work to deliver growth in both customers and profit, the RSP ensures that a large proportion of our Executives' pay is based on direct and uninhibited share price movement. The simplification of pay in this manner also aligns to our overall strategic goal of simplification across all aspects of the business. Further rationale for this change is set out in the Chair's letter on pages 71 to 73.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Pensions Positioned to provide a market competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any AIP calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.	The maximum benefit for Executives is 10% of base salary earned during the financial year. This compares with the average pension benefit across the wider UK workforce, currently 10-13% of salary.	Not applicable.	No changes to Policy.
Benefits Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.	The Group offers Executives a range of benefits including (but not limited to): • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; and • health screening and wellbeing services.	Cash allowance in lieu of company car – currently £15,120 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary.	Not applicable.	No changes to Policy.
All-employee share plans Provides an opportunity for employees to voluntarily invest in the Company.	Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.	Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants.	Not applicable.	No changes to Policy.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Shareholding requirements To align the interests of Executive Directors with shareholders over a long-term period including after departure from the Group.	**In-employment requirement** During employment, the CEO and CFO are required to build and maintain a minimum shareholding of 300% and 200% of their base salary respectively. Executives must also hold 100% of vested incentive shares (net of tax) until the shareholding requirement is met. **Post-employment requirement** Executive Directors are required to hold shares after cessation of employment to the full value of the shareholding requirement (or the existing shareholding if lower at the time) for a period of two years. Shares purchased by Executives with their own monies are excluded from the post-employment requirement.	**In-employment requirement** The current shareholding requirement is maintained at 300% of base salary for the CEO and 200% of base salary for the CFO. **Post-employment requirement** Executive Directors will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 300% of base salary for the CEO and 200% of base salary for the CFO for a period of two years. Only shares earned from vested incentives will be included within the post-employment shareholding requirement.	Not applicable.	The current shareholding requirement of the CEO of 300% of base salary is above comparative market levels and will remain as is. The shareholding requirement for the CFO will be 200% of base salary. Executives must hold 100% of vested incentive shares until the shareholding requirement is met (this was previously set at 75%). The post-employment shareholding requirement now applies to 100% of the in-employment shareholding requirement (or actual if lower) for a period of two years post-employment (this was previously set at 50%). Shares purchased by Executives with their own monies are explicitly excluded from the post-employment shareholding requirement.

Notes to the Remuneration Policy table

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Policy set out on pages 82 to 94, where the terms of the payment were agreed before the Policy came into effect, at a time when the relevant individual was not an Executive of the Company or, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive of the Company. For these purposes payments include the amounts paid in order to satisfy awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted. This includes satisfying LTIP awards granted in accordance with historic remuneration policies.

The Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Statement of consideration of shareholder views

In developing the Policy set out above, the Committee carried out an extensive shareholder consultation exercise, engaging directly with our top 20 shareholders making up approximately 50% of the shareholder register. After several rounds of consultation, we carefully considered the feedback received and proposals were refined in response.

One point that was raised by a number of shareholders was in respect of the underpin. It is important for the Committee to ensure that, in the removal of performance conditions from the long term incentive structure, any risk of "payment for failure" is mitigated, and this was a key discussion point in our consultation with shareholders. A number of shareholders requested further clarity in respect of the underpin and an indication of the type of factors that would be considered in assessing it and this has been set out in respect of the 2022 award on page 81 and will be disclosed in advance of each grant of RSP going forward. The assessment under the RSP underpin will also be disclosed on vesting. Further details on our consultation with shareholders is described in the Committee Chair's letter on pages 71 to 73.

Performance measures

We continue to be committed to full transparency and disclosure. We will disclose all targets as soon as any commercial sensitivity falls away. At the latest, full disclosure will be at the end of the performance period.

AIP

Performance for the AIP will be measured against financial and non-financial measures with respective targets for each measure set by the Committee each financial year. The Policy provides the Committee with the flexibility to choose measures each financial year that are strongly linked to the specific strategic and financial priorities in any given financial year.

For financial measures, the targets are set with reference to internal forecasts, external forecasts and other circumstances as appropriate to ensure that targets are suitably stretching and motivational to executives.

Non-financial targets are set each financial year with reference to the key strategic objectives of the company and are linked to the long term success of the business.

RSP

The RSP is subject to an underpin assessed by the Committee to ensure any risk of "payment for failure" is mitigated. In assessing the underpin, the Committee will consider the Company's overall performance, including financial and non-financial performance measures, as well as any material risk or regulatory failures identified.

Financial performance can include elements such as revenue, profitability, shareholder experience and return on capital. Non-financial performance can include a range of operational and strategic measures critical to the Company's long-term sustainable success.

For example, for the 2022 RSP award (subject to shareholder approval of the Policy), the specific factors which the Committee will consider include, but are not limited to, the following:

- a review of overall financial performance over the three-year vesting period;
- whether there have been any sanctions or fines issued by a Regulatory Body (participant responsibility may be allocated collectively or individually);
- whether a major safety incident has occurred which may or may not have consequences for shareholders;
- whether there has been material damage to the reputation of the Company (participant responsibility may be allocated collectively or individually);
- whether there has been failure to meet a major milestone in our Climate Transition Plan which sets out our ambition to be a net zero business by 2045;
- return on capital with reference to the cost of capital;
- TSR performance over the vesting period, including with reference to the wider energy sector;
- management of appropriate customer numbers over the vesting period; and
- progress against broader ESG commitments.

The balance and weighting of these factors in the Committee's assessment may be adjusted as the key strategic objectives of the Group develop over time, and the Committee will continue to consider performance in the round to ensure there is a fair link between the remuneration outcomes and the shareholder experience.

Malus and clawback

In line with UK corporate governance best practice, the Committee can apply malus (that is reduce the number of shares in respect of which an award vests) or delay the vesting of awards. In addition, where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback. The following provisions apply:

- AIP – cash awards: malus will apply up to the payment of the cash AIP award and clawback will apply for a period of 3 years after the cash AIP payment;
- AIP – deferred shares: clawback will apply during the vesting period of three years following the payment of the cash AIP award to which the deferred shares relate;
- historic LTIP awards: malus will apply during the vesting period and up to the date of vesting and clawback will apply for a period of two years post-vesting; and
- RSP awards: malus will apply during the vesting period and up to the date of vesting and clawback will apply for a period of two years post-vesting.

Legacy awards are governed by the malus and clawback provisions within the respective policy and plan rules. For awards granted under the proposed policy malus and clawback provisions may be applied in the following circumstances:

- material financial misstatement;
- where an award was granted, or performance was assessed, based on an error or inaccurate or misleading information;
- action or conduct of a participant amounts to fraud or gross misconduct;
- events or the behaviour of a participant have led to censure of the Company or Group by a regulatory authority or cause significant detrimental reputational damage;
- material failure of risk management; or
- corporate failure.

Pension arrangements applying to Executives

All registered scheme benefits are subject to HMRC guidelines and the Lifetime Allowance.

The Centrica Unapproved Pension Scheme (CUPS) defined contribution (DC) section provides benefits for individuals not eligible to join the CUPS defined benefit (DB) section and for whom registered scheme benefits are expected to exceed the Lifetime Allowance. The CUPS DC section is offered as a direct alternative to a cash salary supplement.

CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's balance sheet.

The Centrica Pension Plan (CPP) is a registered defined benefit plan which is closed to new members.

Discretion and judgement

It is important that the Committee maintains the flexibility to apply discretion and judgement to achieve fair outcomes as no remuneration policy and framework, however carefully designed and implemented, can pre-empt every possible scenario. The Committee needs to be able to exercise appropriate discretion to determine whether mechanistic or formulaic outcomes are fair, in context and can be applied in an upward or downward manner when required.

Judgement is applied appropriately by the Committee, for example when considering the political and social pressures on the business, the impact of significant movements in external factors such as commodity prices, in setting and evaluating delivery against individual and non-financial performance targets
to ensure they are considered sufficiently stretching and that the maximum and minimum levels are appropriate and fair.

The Committee has absolute discretion to decide who receives awards, the level of the awards under the incentive plans and the timing, within the parameters set in the rules and the limits in the Policy table.

In the case of a corporate action, the Committee can agree, whether share awards pay out or are rolled over in this situation and how any special dividend might apply. The Committee also maintains the discretion to adjust any awards in the event of a variation of capital, for example to maintain the incentive value at the level originally intended.

The Committee retains discretion, consistent with market practice, regarding the operation and administration of the incentive plans including, but not limited to, the following:

- determination of the result of any disputes relating to the interpretation of the rules;
- determining the appropriate choice of measures, weightings and time frame of any award, subject to the time frame being no less than set out in the policy table;
- alteration of the terms of the performance targets during or at the end of the measurement period if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones; and
- determination that any award is forfeit in whole or in part.

The Committee also retains the discretion to forfeit or clawback deferred awards if it determines that prior performance which resulted in the AIP being awarded was discovered to be a misrepresentation of results or inappropriate management behaviour which fails to reflect the governance or values of the business.

The Committee further has discretion over the determination of whether a leaver is a 'leaver by exception' for incentive plan purposes subject to the rules of each plan and has discretion over any adjustments required in certain circumstances.

Total remuneration by performance scenario

The charts below indicate the minimum, on-target and maximum remuneration that could be received by each Executive, under the Policy. Assumptions made for each scenario are:

- **Minimum** – fixed remuneration only (base salary at current level, together with pension and benefits as set out in the Remuneration Policy table);
- **On-target** – fixed remuneration plus target AIP (as set out in the Remuneration Policy table) and value under the RSP on vesting of 100%;
- **Maximum** – fixed remuneration plus maximum AIP opportunity and value under the RSP on vesting of 100%; and
- **Maximum + 50% share price growth** – fixed remuneration plus maximum AIP opportunity and value under the RSP with 50% share price growth.

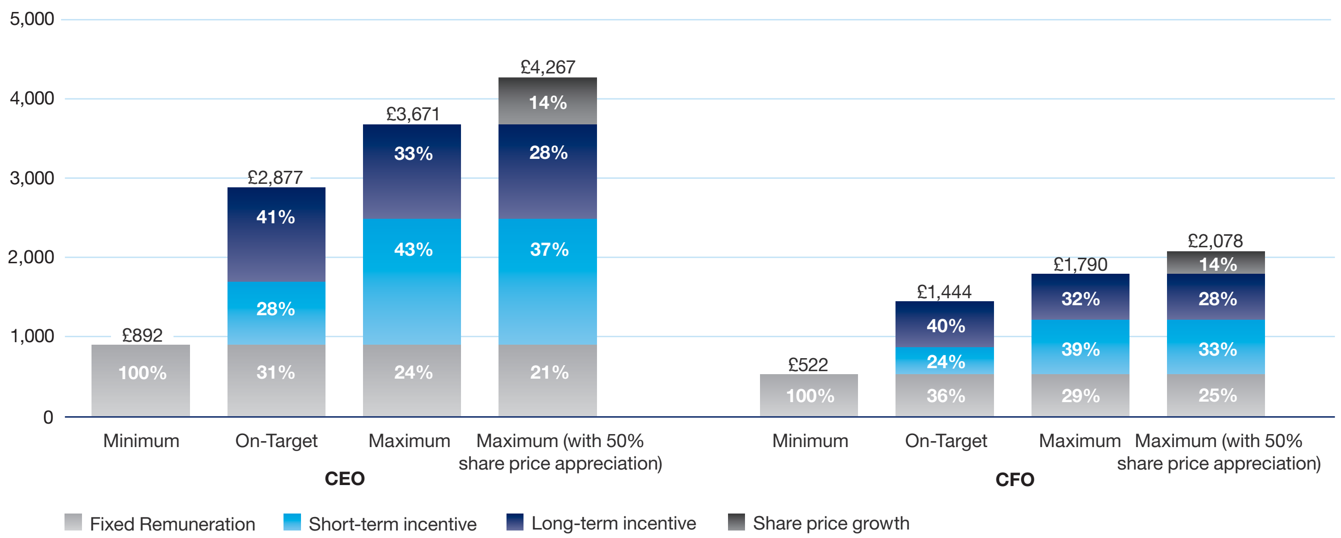
Recruitment Policy

The Committee will apply the same remuneration policy during the policy period as that which applies to existing Executives when considering the recruitment of a new Executive in respect of all elements of remuneration as set out in the Remuneration Policy table.

Whilst the maximum level of remuneration which may be granted would be within plan rules and ordinarily subject to the maximum opportunity set out in the Remuneration Policy table, in certain circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual up to 25% above the maximum opportunity, albeit that any such arrangement would be made within the context of minimising the cost to the Company.

The policy for the recruitment of Executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of annual bonus entitlements and/or unvested long-term incentive awards (at a value no greater than what is forfeit) from an existing employer, if any, and the additional provision of benefits in kind, pensions and other allowances, as may be required in order to achieve a successful recruitment. The Company has a clear preference to use shares wherever possible and will apply timescales at least as long as previous awards.

Total remuneration by performance scenario (£000)



Details of the relocation and expatriate assistance that may be available as part of the recruitment process can be found in the table below.

Relocation and expatriate assistance	
Purpose and link to strategy	Enables the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.
Operation and clawback	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.
Maximum opportunity	Maximum of 100% of base salary.
Performance measures	Not applicable.
Changes	No changes.

Service contracts

Service contracts provide that either the Executive or the Company may terminate the employment by giving one year's written notice. The Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year. All Executive and Non-Executive Directors are required to be re-elected at each AGM.

Executive Director	Date of appointment to role	Date of current contract	Notice from the Group	Notice from the individual
Chris O'Shea	1 November 2018	10 December 2020	12 months	12 months
Kate Ringrose	18 January 2021	17 January 2021	12 months	12 months

Termination policy

The Committee carefully considers compensation commitments in the event of an Executive Director's termination. The aim is to avoid rewarding poor performance and to reduce compensation to reflect the departing Executive's obligations and to mitigate losses.

Remuneration element	Scenario	Payment
Base salary, pension and other benefits	Dismissal with cause	No further payments made except those that an individual may be contractually entitled to.
	All other scenarios	Either continue to provide base salary, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice. Typically any payment in lieu of notice will be made in monthly installments and reduce, or cease completely, in the event that remuneration from new employment is received.
AIP	Dismissal with cause	AIP award and any deferred awards will be forfeit.
	Resignation	Executives leaving as a result of resignation will forfeit any potential AIP award for the performance year in which the resignation occurs.
	Change of control	The AIP award will be prorated for time (based on the proportion of the AIP period elapsed at the date of change of control). The Committee has discretion to determine that the AIP does not pay out on change of control and will continue under the terms of the acquiring entity. The Committee has discretion to dis-apply prorating in exceptional circumstances. Deferred awards may vest immediately or be exchanged for new equivalent awards in the acquirer where appropriate.
	Exceptions*	An AIP award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time apportioned for the period worked. Any award would normally be payable at the normal time with 50% a deferral in line with the remuneration policy table. The Committee has discretion to accelerate the vesting of deferred awards.
LTIP and RSP	Dismissal with cause or resignation	All unvested awards will lapse.
	Change of control	Existing awards will be exchanged on similar terms or vest to the extent that the performance conditions have been met at the date of the event and be time-apportioned to the date of the event or the vesting date, subject to the overriding discretion of the Committee.
	Exceptions*	Any outstanding awards will normally be prorated for time based on the proportion of the performance and/or vesting period elapsed. Performance will be measured at the end of the performance period. On death, awards may vest earlier than the normal date. The Committee has the discretion to dis-apply prorating or accelerate testing of performance conditions in exceptional circumstances.

* Exceptions are defined by the plan rules and include those leaving due to the following reasons: ill health, disability, redundancy, retirement (with agreement from the Company), death, or any other reason that the Committee determines appropriate.

Following termination, awards continue to be subject to malus and clawback provisions in line with those set out in the rules and the policy.

Pay fairness across the Group

The Group operates in a number of different environments and has many employees who carry out a range of diverse roles across a number of countries. In consideration of pay fairness across the Group, the Committee believes that ratios related to market competitive pay for each role profile in each distinct geography are the most helpful.

The ratios of salary to the relevant market median are compared for all permanent employees across the Group and are updated using salary survey benchmarking data on an annual basis.

Unlike the significant majority of the workforce who receive largely fixed remuneration, mainly in the form of salary, the most significant component of Executive compensation is variable and dependent on performance. As such, the Committee reviews total compensation for Executives against benchmarks rather than salary alone.

A number of performance-related incentive schemes are operated across the Group which differ in terms of structure and metrics from those applying to Executives.

The Group also offers a number of all-employee share schemes and Executives participate on the same basis as other eligible employees.

Performance measures applying to Executives are cascaded down through the organisation and Group employment conditions include high standards of health and safety and employee wellbeing initiatives.

External appointments of Executives

It is the Company's policy to allow each Executive to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy. Fees received in respect of external appointments are retained by the individual Executive and are set out in the Directors' Annual Remuneration Report each year.

Consideration of the UK Corporate Governance Code

As part of its review of the Policy, the Committee has considered the factors set out in provision 40 and provision 41 of the UK Corporate Governance Code (the "Code"). In the Committee's view, the proposed Policy addresses those factors as set out below:

Principles of the code	How the Policy aligns
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	The Policy is simple and designed to support long-term, sustainable performance. Shareholders were extensively consulted in the design of the policy, and the key rationale for the changes that are to be made. The Committee proactively seeks engagement with shareholders on remuneration matters on an ongoing basis and whilst no direct engagement with the workforce occurred on the development of the Remuneration Policy this year, the proposed structure is aligned to that available to our Senior level employees. Additionally, in order to enhance the level of engagement with our employees going forward, a Shadow Board, comprising colleagues across the business and in different locations, has been launched. Through the Shadow Board, colleagues will be able to discuss and share views on Executive pay. Details of how the Committee has engaged with the Shadow Board will be disclosed in next year's Director's Remuneration Report and on an ongoing basis.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	The latest policy results in a clear simplification of remuneration arrangements through the replacement of a performance share plan, with a simpler restricted share plan. We further operate an annual incentive (the AIP) with a straightforward deferral structure to allow it to be easily understood. The performance conditions for variable elements are clearly communicated to, and understood by, participants and aligned with the Group strategy.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	The majority of the Executive Directors' total remuneration is weighted towards variable pay (and provided in shares). The proposed changes result in a reduced risk of excessive reward, through lower quantum for the executive team alongside an increased discouragement of excessive risk taking behaviour through the use of a post-employment shareholding requirement. The Committee also retains discretion to override formulaic outcomes for incentive plans. Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy	The Policy sets out the maximum potential value for each element of remuneration subject to the achievement of performance conditions. The potential total remuneration outcomes are easily quantifiable and are set out in the illustrations provided in the Policy. As highlighted in Risk, the Committee has discretion to override formulaic outcomes if they were deemed to be inappropriate.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear. Outcomes should not reward poor performance	Remuneration is appropriately balanced between fixed and variable pay. Short term performance targets are linked to the Group's strategy and the use of deferral in the AIP ensures a link to long-term performance through this element. The introduction of an RSP ensures a strong link to long-term performance as executive reward is directly linked to the share price of the company.
Alignment to culture Incentive schemes should drive behaviours consistent with the Group's purpose, values and strategy	The short term incentive plans are measured against performance measures which underpin the Group's culture and strategy. The incentive structure is cascaded through the top six levels of the organisation ensuring that it drives the same behaviours across the group.

Non-Executive Directors' remuneration

Remuneration Policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract the high calibre individuals required to support the delivery of our strategy.

Remuneration Policy table

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures	Changes
Chair and Non-Executive Director Fees Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans. Fees reflect market practice as well as the responsibilities and time commitment required by our Non-Executives.	The fee levels for the Chairman are reviewed every two years by the Remuneration Committee. The fee levels of the Non-Executives are reviewed at least every two years. Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee. Current fee levels (applying from 1 January 2016): Chairman of the Board – up to £495,000 per annum. Base fee for Non-Executives – £72,500 per annum. The following additional fees apply: • Chairman of Audit and Risk Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Environment and Sustainability Committee – £20,000 per annum; • Senior Independent Director – £20,000 per annum; and • Employee Champion – £20,000 per annum. The Company reserves the right to pay a Committee membership fee in addition to the base fees. Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.	No changes to policy.

Recruitment policy

The policy on the recruitment of new Non-Executives during the policy period would be to apply the same remuneration elements as for the existing Non-Executives. It is not intended that variable pay, day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances. The Committee will include in future Remuneration Reports details of the implementation of the policy as utilised during the policy period in respect of any such recruitment to the Board.

Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association. All Non-Executives are required to be re-elected at each AGM. The date of appointment and the most recent reappointment and the length of service for each NED are shown in the table below:

Non Executive Director	Date of appointment	Date of current letter of appointment	Notice from the Group	Notice from the individual
Scott Wheway	1 May 2016	10 May 2021	6 months	6 months
Carol Arrowsmith	11 June 2020	10 May 2021	3 months	3 months
Stephen Hester	1 June 2016	10 May 2021	3 months	3 months
Pam Kaur	1 February 2019	10 May 2021	3 months	3 months
Heidi Mottram	1 January 2020	10 May 2021	3 months	3 months
Kevin O’Byrne	13 May 2019	10 May 2021	3 months	3 months

Other Statutory Information

The Directors submit their Annual Report and Accounts for Centrica plc, together with the consolidated Financial Statements of the Centrica group of companies, for the year ended 31 December 2021. The Directors' Report required under the Companies Act 2006 (the Act) comprises this Directors' and Corporate Governance Report (pages 48 to 98) including the People and Planet section for disclosure of our carbon emissions in the Strategic Report (page 35). The management report required under Disclosure Guidance and Transparency Rule 4.1.5R comprises the Strategic Report (pages 2 to 46) (which includes the risks relating to our business), Shareholder Information (page 237) and details of acquisitions and disposals made by the Group during the year in note 12 (pages 145 to 147). The Strategic Report on pages 2 to 46 fulfils the requirements set out in section 414 of the Act. This Directors' and Corporate Governance Report fulfils the requirements of the corporate governance statement required under Disclosure Guidance and Transparency Rule 7.2.1.

Articles of Association (Articles)

The Company's Articles were adopted at the 2019 Annual General Meeting (AGM) and may only be amended by a special resolution of the shareholders. The Articles include various rules outlining the running and governing of the Company for example rules relating to the appointment and removal of the Directors and how the Directors can use all of the Company's powers (except where the articles or legislation says otherwise) for example in relation to issuing and buying back shares. The Articles can be found on our website centrica.com.

Centrica shares

Significant shareholdings

At 31 December 2021, Centrica had received notification of the following interests in voting rights pursuant to the Disclosure and Transparency Rules:

	Date notified	% of share capital[1]
Schroders Investment Management Limited	01.11.21	10.99
Bank of America Corporation	09.12.21	5.78
Ameriprise Financial, Inc.	22.12.21	5.07
BlackRock, Inc.	06.05.21	<5%
RWC Asset Management LLP	15.07.21	<5%

(1) Percentages are shown as a percentage of the Company's issued share capital when the Company was notified of the change in holding. As at 23 February 2022, the Company had received further notifications from Bank of America Corporation (23.02.22, <5%), Ameriprise Financial, Inc. (18.01.22, <5%) and Schroders Investment Management Limited (21.01.22, 9.82%). Copies of these, along with historic notifications and any notifications received since 23 February 2022, can be found on our website at centrica.com/rnsannouncements.

Share capital

The Company has a single share class which is divided into ordinary shares of $6^{14}/_{81}$ pence each. The Company was authorised at the 2021 AGM to allot up to 1,956,190,545 ordinary shares as permitted by the Act. A renewal of a similar authority will be proposed at the 2022 AGM. The Company's issued share capital as at 31 December 2021, together with details of shares issued during the year, is set out in note 25 to the Financial Statements on page 174.

Rights attaching to shares

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders is set out in the Articles and in explanatory notes which accompany notices of general meetings, all of which are available on our website centrica.com. There are no shareholder agreements or restrictions in 2021.

Purchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2021 AGM to purchase its own shares up to a maximum of 586,857,163 ordinary shares. No shares were purchased under this authority in 2021. As at 31 December 2021, no shares were held as treasury shares.

Shares held in employee benefit trusts

The Centrica plc Employee Benefit Trust (EBT) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Restricted Share Scheme. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the SIP. Both the Trustees of the EBT and the SIP Trust, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP Trust at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participants' instructions. In the absence of any instruction, the Trustees shall not vote.

Employee participation in share schemes

The Company's all-employee share schemes are a long established and successful part of our total reward package, encouraging the involvement of UK employees in the Company's performance through employee share ownership. We offer tax-advantaged Sharesave (SAYE) schemes in the UK and Ireland, and a Share Incentive Plan (SIP) in the UK, with good levels of take-up for all share plans across the Group. Currently, 20% of eligible employees participate in Sharesave and 31% of eligible employees participate in the SIP. From 2022 all eligible employees globally will be awarded a Profit Share award.

Index to Directors' Report and other disclosures

Workforce

Employee involvement

We remain committed to employee involvement throughout the Group and regularly consult colleagues to ensure we take account of their views in decision making. Colleagues are encouraged to participate via questions and are kept well informed of the performance and strategy, throughout the year, including financial and economic, of the Group and other matters of concern through personal briefings, regular meetings, town halls, email and broadcasts by the Group Chief Executive, Group Chief Finance Officer and members of the Centrica Leadership team at key points in the year.

Equal opportunities

The Group is committed to and has an active equal opportunities policy which includes, but is not limited to, recruitment and selection, training, career development, performance reviews and promotion to retirement. Our culture is to create an environment free from discrimination, harassment and victimisation. Our policies are in place to ensure everyone receives equal treatment regardless of gender, identity, race, ethnic or national origin, disability, age, marital status, sexual orientation or religion or any other characteristic protected by applicable laws.

We have created channels for colleagues to voice concerns confidentially, through a Speak Up support service, a confidential and anonymous helpline operated by an independent company. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

Employees with disabilities

It is our policy that colleagues with disabilities should have full and fair consideration for all vacancies. We continued to demonstrate our commitment to interviewing and enabling people with disabilities who fulfil the minimum criteria during the year. We also provide training, career development and promotion from which all of our colleagues can benefit and are working to develop initiatives within our strategy. We endeavour to retain colleagues in the workforce if they become disabled during employment.

This commitment was further recognised in December 2021 by our renewed level 1 Disability Confident Status and in 2017 we launched Diverse-Ability, a network that celebrates physiological and neurological diversity and abilities amongst our colleagues and helps them access the support they need to thrive at work. Diverse-Ability was re-launched earlier in 2021, with an increased emphasis on neurodiversity. We are proud to support The Valuable 500 initiative and champion disability inclusion throughout Centrica. Launched at the World Economic Forum's Annual Summit in 2020, The Valuable 500 seeks 500 global businesses to place disability inclusion on their board agendas as the first step to full inclusion for disabled people in business. We are members of the Business Disability Forum, which offers support, toolkits and advice to businesses around disability matters. We also partner with Scope.

Human rights

We are fully committed to upholding the fundamental human rights and freedoms of everyone who works for us, with us, or lives in the communities where we operate. We uphold the UN Guiding Principles on Business and Human Rights and are members of the United Nations Global Compact. As set out in Our Code, we therefore take steps to ensure that we never knowingly cause or contribute to human rights abuses through activities like employment checks and supplier due diligence. We also aim to contribute positively to global efforts to ensure human rights are understood and observed. For further information about our efforts can be found in our People and Planet section on Pages 28 to 37. Copies of our Modern Slavery Act (MSA) statement and our Human Rights Policy are available on our website centrica.com.

Other information

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to the Directors of the Company. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2021 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers. The Company has granted qualifying pension scheme indemnities in the form permitted by the Companies Act 2006 to the directors of Centrica Pension Plan Trustees Limited, Centrica Engineers Pension Trustees Limited and Centrica Pension Trustees Limited, that act as trustees of the Company's UK pension schemes.

Political donations

The Company operates on a politically neutral basis. No political donations were made by the Group for political purposes during the year.

Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

The significant agreements of this kind include:

- those that relate to 2009, when the Company entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and the Company to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of the Company, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group; and
- committed facility agreements, subordinated fixed rate notes and bonds issued under the Company's medium term note programme.

The Remuneration Policy sets out on page 91 details on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control.

Payments policy

We recognise the importance of good supplier relationships to the overall success of our business. We manage dealings with suppliers in a fair, consistent and transparent manner.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. All such disclosures are included in this Directors' and Corporate Governance Report, other than the following sections of the 2021 Annual Report and Accounts:

Information	Location in Annual Report	Page(s)
Capitalised interest (borrowing costs)	Financial Statements	139, note 8
Details of long-term incentive schemes	Remuneration Report	72 and 76
Waiver of emoluments by a Director	Remuneration Report	74

Directors' statements

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the Financial Statements on a going concern basis. The Group's business activities, together with factors that are likely to affect its future development and position, are set out in the Group Chief Executive's Statement on pages 4 to 6 and the Business Reviews on pages 23 to 25. After making enquiries, the Board has a reasonable expectation that Centrica and the Group as a whole have adequate resources to continue in operational existence and meet their liabilities as they fall due, for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements.

Additionally, the Directors' Viability Disclosure, which assesses the prospects for the Group over a longer period than the 12 months required for the going concern assessment, is set out on pages 44 to 46. Further details of the Group's liquidity position are provided in notes 24 and S3 to the Financial Statements on pages 171 and 192.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards, in conformity with the requirements of Companies Act 2006. The Directors have also chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework.

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 the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then 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.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility statement

The Directors confirm that to the best of their knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Information to the independent auditors

The Directors who held office at the date of this Report confirm that:

- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information; and
- there is no relevant audit information of which Deloitte LLP are unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming AGM.

By order of the Board

Raj Roy
Group General Counsel & Company Secretary
23 February 2022

Financial Statements

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Centrica plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Statements of Changes in Equity;
- the Group and Company Balance Sheets;
- the Group Cash Flow Statement; and
- the related notes 1 to 26 and the supplementary notes S1 to S11 of the Group financial statements and notes I to XIV of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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 Group and 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group for the year are disclosed in note S9 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- judgements associated with accounting for energy supply arrangements to British Gas Energy and Centrica Business Solution customers;
- impairment reversals in respect of Exploration and Production (E&P) assets and the Group's investment in Nuclear;
- the presentation and accounting for the completed disposal of Direct Energy and the planned disposal of Spirit Norway and Statfjord; and
- classification, valuation and presentation of non-supply energy contracts.

The second half of 2021 saw a significant increase in gas, power and oil prices which, in the UK, led to some energy suppliers ceasing to operate. The Group has agreed to take on customers from some of these suppliers through the supplier of last resort ('SoLR') mechanism. This, and the related macro-economic environment, has increased the risk that energy supply contracts are now onerous as well as heightening the risk of bad debt within the Group's British Gas Energy and Centrica Business Solutions energy supply businesses. In the prior year we considered this key audit matter to relate solely to the billed debt provisions. We have expanded the key audit matter this year to cover other judgements associated with the supply of energy, including the risk of onerous supply contracts and accounting for transactions under the SoLR mechanism.

In 2021 the Group completed the sale of Direct Energy and announced the planned sale of Spirit Energy's Norwegian portfolio and Statfjord fields. The Spirit transactions are expected to complete in the first half of 2022. Given the size of these transactions we have included a key audit matter related to the presentation and accounting of each transaction.

We have removed "Presentation of the Group Income Statement" as a separate key audit matter as the presentation of items within the Group income statement is now covered within the individual key audit matters set out above.

Within this report, key audit matters are identified as follows:

Newly identified

Increased level of risk

Similar level of risk

Decreased level of risk

Materiality

The materiality that we used for the audit of the Group financial statements is £35m (2020: £30m). This materiality was determined on the basis of a range of metrics including shareholders' equity, free cash flow and pre-tax profit adjusted for exceptional items and certain re-measurements.

Materiality of £35m represents 4.6% of final pre-tax profit adjusted for exceptional items and certain re-measurements, 0.9% of free cash flow and 1.3% of shareholders' equity.

Scoping

All components of the Group were subject to a full scope audit other than:

- Bord Gáis;
- Non-regulated parts of British Gas Services and Solutions segment;
- New Energy Services (within the Centrica Business Solutions segment); and
- Centrica Storage and the Group's investment in Nuclear (within the Upstream segment)

These components were each subject to an audit of specified account balances and/or review procedures.

Component materiality levels were set based on the size and audit risk associated with each component on a range of applicable metrics.

Significant changes in our approach

Other than the changes to key audit matters discussed above, there were no significant changes to our audit approach when compared to 2020.

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.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the Group's 2022 and 2023 cash flow forecasts, by considering actual cash flow performance in 2021, historical accuracy of the Group forecasts and key assumptions underpinning the assessment;
- Agreeing the level of committed undrawn facilities of £3.0bn to signed facility agreements;
- Testing the clerical accuracy of the model used to prepare the cash flow forecasts and recalculating the level of headroom;
- Assessing the sensitivities run by the directors including the linkage of these sensitivities to the Group's principal risks disclosed on page 40 to 43 of the Annual Report & Accounts. These sensitivities include a reduction in the Group's credit rating, a reduction in commodity prices impacting the profitability of the Group's Upstream assets and the return in 2022 of COVID-19 restrictions, or a worsening macro-economic environment leading to a decrease in customer cash collection; and
- Assessing the mitigating actions that could be taken by the directors to maximise liquidity headroom including continuing to not pay dividends, a reduction in capital expenditure and a reduction in discretionary spend.

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 Group's and 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.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter description	How the scope of our audit responded to the key audit matter

Judgements associated with accounting for energy supply arrangements to British Gas Energy and Centrica Business Solutions customers !

Key audit matter description

The Group supplies gas and power to residential and business customers in the UK through its British Gas Energy and Centrica Business Solutions segments. The second half of 2021 saw a significant increase in gas, power and oil prices which, in the UK, led to certain energy suppliers ceasing to operate. The Group has agreed to take on customers from some of these suppliers through the supplier of last resort ('SoLR') process. This, and the related macro-economic environment, has increased the risk that energy supply contracts are onerous as well as heightening the risk of bad debt within the Group's British Gas and Centrica Business Solutions energy supply businesses.

The Group has recorded an onerous contract provision relating to energy supply contracts within British Gas Energy and Centrica Business Solutions of £2,530m. Credit losses of £104m have been recognised in the year on amounts due of £2,012m from the supply of energy to customers. £234m has been recognised under Ofgem's SoLR process as a receivable offsetting losses incurred and customer credit balances recognised for customers taken on through the SoLR process.

Further details on the accounting policies for these areas, including the SoLR claims can be found in note 1b. Further detail on the judgements associated with onerous contracts can be found in note 3(b). Details on credit losses relating to trade receivables can be found in note 17. These matters also considered by the Audit and Risk Committee in its report on pages 64 to 68.

Energy supply onerous contract provision

The Group enters into hedges to fix the cost of certain future gas and power purchases. Mark-to-market gains relating to these hedges have been recognised at fair value within the exceptional items and certain re-measurements column of the Group income statement. As these hedges mature and the gas and electricity is purchased, fair value losses will be recognised. The recognition of these charges in future periods will render certain energy supply arrangements as loss-making, and therefore an onerous contract provision is required and is accounted for in line with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'. This amounts to £2,530m as at 31 December 2021.

The key assumptions adopted in estimating this provision include the future gross margin earned from supplying gas and power and customer churn rates, which determine which energy supply arrangements are likely to be loss making over their duration, and which are likely to be profitable and therefore are not included in the provision. Other assumptions include the allocation of overhead costs and selection of the appropriate discount rate.

The onerous contract provision has been recorded within the exceptional items and certain re-measurements column of the Group income statement.

SoLR claim

Under Ofgem's licence conditions and based on accepted SoLR bids, the Group is entitled to claim all incremental costs reasonably incurred in supplying customers taken on through the SoLR process. These include all losses in supplying those customers and customer credit balances. As at 31 December 2021 an asset of £234m has been recognised which offsets the losses incurred by the Group in taking on and supplying these customers in 2021, together with the related customer's credit balances. These arrangements have been accounted for as a government grant under IAS 20 '*Accounting for Government Grants and Disclosure of Government Assistance*'.

How the scope of our audit responded to the key audit matter

Energy supply onerous contract provision

- We obtained an understanding of the relevant methodology adopted by management and challenged whether it is in line with IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*'.
- We assessed future gross margin forecasts through reviewing historic gross margins and assessing the reasonableness of any adjustments made to normalise future margins relative to historic performance.
- We assessed management's customer churn assumptions through assessing historical churn rates and evaluating the factors which may increase or decrease customer churn.
- With involvement of our data analytics specialists, where relevant, we analysed the customer churn data used within management's onerous contract assessment and agreed the data to the customers ageing report. We have also performed direct testing, where relevant, to substantiate the reasonableness of customer ageing profiles.
- We challenged whether overhead costs were directly attributable to the onerous contracts and were appropriately estimated, by considering their categories and nature.
- We assessed the appropriateness of nil % discount rate and whether it represented a market risk-free rate.
- We assessed the appropriateness of management's disclosures within the financial statements including the key assumptions and sensitivities disclosed. We also assessed whether the presentation within the exceptional items and certain re-measurements column of the Group income statement was appropriate.

SoLR claim

- We reviewed correspondence between the Group and Ofgem to confirm that the Group had been appointed as the relevant SoLR, and assessed whether the SoLR mechanism met the definition of a government grant under IAS 20 '*Accounting for Government Grants and Disclosure of Government Assistance*'.
- We tested a sample of costs incurred in the current year in acquiring and servicing SoLR customers to supporting documentation and assessed whether these are incremental by nature.
- We verified the Group's claims made to date under the SoLR mechanism to Ofgem correspondence to assess whether claimed costs will be reimbursed.
- We assessed the appropriateness of management's disclosures.

Key audit matter description	How the scope of our audit responded to the key audit matter

Judgements associated with accounting for energy supply arrangements to British Gas Energy and Centrica Business Solutions customers (continued) !

Billed debt provision

Current macro-economic uncertainties including rising energy bills, a general increase in the cost of living and rising inflation lead to judgement in estimating the expected credit losses on customers receivables in British Gas Energy and Centrica Business Solutions. Key assumptions include the timing and impact of these macroeconomic factors and their impact on the ability of customers to pay their bills. A credit loss charge of £104m has been recognised in the year. Total receivables from British Gas and Centrica Business Solutions energy customers were £2,012m as at 31 December 2021, against which a total provision of £587m is held, including a £30m macroeconomic provision.

Given the judgements involved in these areas, including the risk of management bias, we identified a risk of fraud in the recording of credit losses within British Gas Energy and Centrica Business Solutions.

Billed debt provision

- Our audit approach for the bad debt provisions was a combination of data analytics, substantive audit procedures and tests of internal control.
- We understood the cash collection processes and relevant controls over the recording of bad debt provisions. We tested and relied upon controls relevant to the calculation of provisions, where applicable.
- With involvement of our IT and data analytics specialists, we tested the accuracy of the underlying debt books including the age of debt, and recalculated management's provision rates based on historic cash collection.
- We assessed how amounts receivable at 31 December 2020 were collected over 2021 in order to estimate an expected profile of the recovery of 31 December 2021 balances, on a 'business as usual basis'. We applied this profile to 31 December 2021 debt and then assessed:
  - how cash collection could change, based on the timing and severity of cost of living changes; and
  - management's accounting for the impact of these changes in the billed debt provision estimate.
- We assessed management's disclosures of this key source of estimation uncertainty, and the range of sensitivities disclosed.

Key observations

We are satisfied that certain energy supply contracts within the British Gas Energy and Centrica Business Solutions segments are onerous and that the charge of £2,530m has been appropriately estimated. We are satisfied that the charge has been correctly presented within the exceptional items and certain re-measurements column of the Group income statement.

We are satisfied that the Group's SoLR claims meet the definition of a government grant under IAS 20 '*Accounting for Government Grants and Disclosure of Government Assistance*' and that the receivable of £234m has been appropriately recognised.

We are satisfied that the Group's bad debt provisions including the £30m macroeconomic provision are within an acceptable range.

Key audit matter description	How the scope of our audit responded to the key audit matter

Impairment reversals in respect of Exploration and Production (E&P) assets and the Group's investment in Nuclear

The Group holds significant upstream exploration and production assets and a 20% investment in certain of the UK's nuclear power stations, which are required to be reviewed for indicators of impairment, or impairment reversal as appropriate.

The total pre-impairment book value of exploration and production assets at 31 December 2021 is £640m and the total book value of the investment in Nuclear is £843m. Management have recorded a pre-tax impairment reversal of £1,585m against these assets, including £838m on exploration and production assets and £747m on the investment in Nuclear, primarily due to higher gas, oil and power prices in the near and medium term, as disclosed in note 7.

Further details on the key sources of estimation uncertainty underpinning the impairment reversals for these assets can be found in note 3(b). Details on the sensitivity of the above impairment reviews to changes in key assumptions such as commodity prices are disclosed in note 7(c). This includes sensitivities associated with the Group's commodity price curves if these curves were aligned with the Net Zero scenario ('Net Zero curve') which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. The matter is also considered by the Audit and Risk Committee in its report on pages 64 to 68.

The significant increase in near- and medium-term gas, oil and power prices has increased the risk a reversal of prior impairments recorded is required. We therefore identified a risk of material misstatement and a key audit matter around the valuation of these assets for impairment testing purposes.

The impairment reversals have been recorded within the exceptional items and certain re-measurements column of the Group income statement.

The key assumptions and judgements underpinning the impairment reviews of exploration and production assets and the investment in Nuclear include:

- forecast future commodity prices, including the likely impact of the Paris Accord and climate change on those prices;
- forecast future production or generation profiles of the assets;
- forecast future cash flows for the assets;
- estimates of oil and gas reserves specific to each asset, evaluated by third-party experts;
- availability forecasts in respect of the nuclear power stations;
- useful life estimates; and
- the discount rate.

Furthermore, impairment reversals are capped at the original cost of these assets, less related depreciation. Therefore, the assessment of the level of the cap is critical in determining the level of impairment reversal recognised.

We identified a risk of fraud in the future generation profiles adopted in the Nuclear impairment review as there may be a risk of bias in the assumptions adopted.

Procedures on the overall impairment review:

- We understood management's process for identifying indicators of impairment and impairment reversals and for performing their impairment assessment.
- We obtained an understanding of the relevant controls relating to the asset impairment models, the underlying forecasting process and the impairment reviews performed.
- We evaluated and challenged the key assumptions and inputs into the impairment models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. We evaluated changes in key assumptions and assessed retrospectively whether prior year assumptions were appropriate.
- We involved our internal valuation specialists in evaluating management's discount rates, which involved benchmarking against available market views and analysis.
- We tested the arithmetical accuracy of the impairment models.
- We evaluated the impairment reversal judgements taken, with reference to our assessment of the key assumptions as outlined above and the outcome of the sensitivities performed.
- We tested the historical cost of the assets and the related depreciation, to assess whether impairment reversals were capped at these values, where relevant.
- We assessed the appropriateness of management's disclosures of the key assumptions and sensitivities including the presentation of the impairment reversals within the exceptional items and certain re-measurements column of the Group income statement.

Procedures relating to forecast future cash flows:

- We confirmed that forecast cash flows were consistent with the board's approved forecasts, where relevant, and analysed reasonably possible downside sensitivities.
- We validated oil and gas production profiles to external reserve and operator estimates and agreed these to the cash flow forecasts.
- We agreed estimates of oil and gas reserves to third party reserve reports, assessing the competence, capabilities and objectivity of those third-party experts engaged by management.
- We assessed the reasonableness of the Nuclear plants' availability forecasts and estimated useful lives and sensitised the impact of a change in assumptions on the overall impairment charge.
- We evaluated the Group's estimation of future commodity prices with involvement of our own internal specialists, benchmarked against externally available future commodity price estimates and performed sensitivity analysis with alternative future prices. This includes a scenario which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. We recalculated management's disclosures relating to the sensitivity of the Group's impairment tests to reduced commodity prices, including the Net Zero curves.

Key observations

We are satisfied that the key assumptions used to determine the recoverable amount of long-life assets are appropriate, including estimates of reserves, production and availability forecast. We are also satisfied that the Group's discount rate assumptions are determined based on acceptable valuation methodologies and, when considered alongside other key assumptions, are appropriate.

The Group's future commodity price estimates are at the middle of the acceptable range of external sources, consistent with the prior year. We observed that generally the forecasts from acceptable external sources for oil and gas prices were above the assumed prices in the net zero scenario, with forecasts for oil and gas being above a Net Zero curve, although forecasts for power were below a Net Zero curve. We considered the sensitivity disclosures relating to the impact on the Group's impairment reviews of future commodity price estimates arising from climate change to be acceptable.

We are satisfied that the Group has capped certain impairment reversals at the original cost of those assets, less related depreciation, where appropriate.

Based on the procedures performed we are satisfied that the Group's impairment reversals are appropriate and that the recording of the impairment reversals within the exceptional items and certain re-measurements column of the Group income statement is consistent with Group policy.

Key audit matter description	How the scope of our audit responded to the key audit matter

The presentation and accounting for the disposal of Direct Energy and the planned disposal of Spirit Norway and Statfjord !

On 5 January 2021, the Group completed the sale of Direct Energy to NRG Energy Inc ('NRG'), recognising a £624m post-tax gain on disposal.

On 8 December 2021, the Group announced the sale of Spirit Energy's portfolio of Norwegian assets and the Statfjord fields (together the 'Spirit disposal group') to Sval Energi AS and Equinor, respectively. Following the proposed sale, an impairment of £244m has been recorded, including a goodwill impairment of £198m and the write off of the remaining Spirit exploration and evaluation assets of £33m. Transaction and other costs total £13m.

Details and judgements on assets and liabilities of disposal groups classified as held for sale and discontinued operations relating to the sale of Direct Energy, and the planned sale of Spirit Norway and the Statfjord fields can be found in note 3(a) and note 12. The matter is also considered by the Audit and Risk Committee in its report on pages 64 to 68.

We identified a risk that the transactions had not been correctly presented and accounted for in accordance with applicable accounting standards, including IFRS 5 '*Assets held for sale and discontinued operations*'.

The sale of Direct Energy
The Group completed the sale of Direct Energy to NRG for £2,703m, net of transaction costs of £31m. The £624m post-tax gain on disposal has been presented as an exceptional item within discontinued operations in the exceptional items and certain re-measurements column of the Group income statement.

Spirit disposal group
A total headline consideration for Spirit disposal group was £795m. Further deferred contingency payments will be payable upon completion, currently estimated at £47m. The final consideration receivable will be reduced for net cash flows generated by the Spirit disposal group from 1 January 2021 to the final disposal date. The Group also announced plans to limit capital expenditure and cease exploration within the retained Spirit business. The transaction is subject to approvals by Centrica and Stadtwerke München GmbH ('SWM') shareholders, representing the majority and minority shareholders of Spirit Energy respectively.

The Spirit disposal group has been presented as 'held for sale' at 31 December 2021 in accordance with IFRS 5 '*Assets held for sale and discontinued operations*', but is not presented as a discontinued operation. This is because the transactions do not represent an exit from a major line of business (not being a separate segment as reported in note 4), and does not represent an exit from a separate geographical area as the group retains oil and gas assets within Europe.

The sale of Direct Energy

- We verified the consideration to the signed share purchase agreement, bank statements and other supporting evidence, including the final agreed working capital adjustments.
- We recomputed the final gain on disposal.
- We evaluated whether Direct Energy has been correctly presented within the financial statements as a discontinued operation and that the post-tax gain on disposal of £624m has been correctly presented as an exceptional item under Group policy within the exceptional items and certain remeasurement column of the Group income statement.

Spirit disposal group

- We verified the key terms of the transactions to the share purchase agreements.
- We assessed whether the disposal group met the criteria to be classified as held for sale at the balance sheet date. This included enquiring with key members of management on the status of approvals at both Centrica and SWM. We also reviewed the joint Centrica and SWM steering committee documents to assess the status of the transactions and the key conditions attached to the closing of the sale.
- We assessed whether the disposal group met the definition of a discontinued operation, including assessing the size of the Spirit disposal group to the rest of the Group, and its geographic footprint.
- We performed substantive testing procedures to audit the results generated by the disposal group in 2021.
- We recomputed and verified to the share purchase agreement the forecast consideration and recomputed the impairment charge recorded of £198m. This included assessing the allocation of goodwill to the disposal group and the retained business.
- We reviewed the announcements made around the future plans for the retained Spirit business and assessed the write down of the remaining Spirit exploration and evaluation assets of £33m.
- We assessed the disclosures within the financial statements, including whether the impairment charges of £244m have been correctly recorded within the exceptional items and certain re-measurements column of the Group income statement. We also assessed the appropriateness of management's disclosures of determining the recoverable amount of Spirit disposal group as a key source of estimation uncertainty.

Key observations

We are satisfied that the sale of Direct Energy has been appropriately accounted for and disclosed within the financial statements, including its presentation as a discontinued operation.

We agree that the Spirit disposal group met the criteria to be classified as held for sale at the balance sheet date, but does not meet the definition of a discontinued operation.

We are satisfied with the final impairment charge recorded of £244m and that this has been correctly recorded within the exceptional items and certain re-measurements column of the Group income statement.

Key audit matter description	How the scope of our audit responded to the key audit matter

Classification, valuation and presentation of energy contracts

As disclosed in note 7 to the financial statements, a re-measurements gain of £1,289m on energy derivative contracts have been recognised in the year. Details on the Group's energy contracts can be found in note 19 and note S3(a). The key sources of estimation uncertainty associated with energy contracts can be found in note 3(b) with further details on the presentation of certain re-measurement arising on derivatives disclosed in note 2(b). The matter is also considered by the Audit and Risk Committee in its report on pages 64 to 68.

The critical accounting judgement in respect of Liquefied Natural Gas ('LNG') is disclosed in note 3(a) and the long term LNG commitments are disclosed in note 23. These matters are also reported on pages 64 to 68 of the Audit and Risk Committee's report.

The Group undertakes proprietary trading activities and also enters into forward commodity contracts to optimise the value of its production and generation assets as well as to meet the future needs of its customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. Others are treated as 'own use' activities as permitted by IFRS 9 '*Financial Instruments*'. We identified a key audit matter related to the following:

- Valuation of complex commodity trades

  We identified the valuation of complex derivative trades performed internally by management's valuation specialists as having a risk of material misstatement due to error. This is because judgement is required in valuing derivative contracts, particularly where there is modelling complexity and bespoke contractual terms (level 3 in accordance with IFRS 13 '*Fair Value Measurement*').

  The value of complex commodity trades increased this year due to the significant rise in commodity prices in the second half of 2021 and this heightened the level of risk.

- LNG contracts

  The Group does not consider its long term LNG supply contracts to be derivatives because these contracts are entered into for the receipt and delivery of physical commodity in accordance with expected purchase and sales requirements (i.e. are determined to be for the Group's own use). Such contracts are therefore outside the scope of IFRS 9 '*Financial Instruments*' and are not marked to market. These contracts are significant commitments and therefore this judgement is important and our assessment of this judgement is therefore part of our key audit matter.

- Other own use contracts

  Certain other commodity contracts have been entered into for the purposes of securing commodities for the energy supply businesses or for selling the Group's commodity production. Where contracts have been entered into to satisfy the Group's normal business activities, these have also been determined to be own use contracts and consequently are not recorded at fair value. Management performed retrospective and prospective demand tests as part of the own use assessment. Due to the size and value of these contracts we identified the appropriateness of the own use treatment of these contracts as another aspect of this key audit matter.

Valuation of complex derivatives

- We understood the Group's processes and controls for authorising and recording commodity trades.
- We have understood management's process and tested the relevant controls relating to the valuation of complex derivatives within the Group's Energy, Marketing and Trading ('EM&T') business. We also assessed the competence, capability and objectivity of management's own internal valuation specialists.
- With involvement of financial instrument specialists, we assessed the value of material complex trades, either by creating an independent valuation or by testing how management developed their estimate. We also assessed the movement in the fair values based on the change in significant inputs, while testing these inputs, where relevant.

LNG contracts

- We assessed whether the Group's LNG contracts meet the definition under IFRS 9 '*Financial Instruments*' to be classified as own-use, including analysing the LNG cargos in the year, assessing whether the cargos delivered were consistent with an own use business and that a past practice of net settling the LNG contracts had not been established.

Other own use contracts

- We reviewed the Group's material own use contracts to determine whether the application of the own-use treatment under IFRS 9 was appropriate.
- We tested the prospective and retrospective demand tests performed by the Group to determine whether the contract volumes exceed the amount of estimated own use demand in the relevant periods. This also included an evaluation of the contracts for net settlement activity.
- We assessed plans to amend certain own-use contracts in the year to ensure whether such plans would invalidate the own use assessment.

Key observations

We are satisfied that complex derivative trades are valued on a reasonable basis and that the accounting classification and valuation of such trades is appropriate.

We are satisfied with the conclusion that LNG contracts should not be accounted for at fair value because they meet the criteria to be classified as own use.

We are satisfied with the appropriateness of the Group's own-use accounting across the wider group.

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£35 million (2020: £30 million)	£33 million (2020: £28 million)
Basis for determining materiality	We determined materiality on the basis of a range of applicable metrics including free cash flow, shareholders' equity and pre-tax profit adjusted for exceptional items and certain re-measurements. The range was £35-45m. Materiality of £35m represents 4.6% of final pre-tax profit adjusted for exceptional items and certain re-measurements, 0.9% of free cash flow and 1.3% of shareholders' equity. In the prior year, materiality was based on the same range of applicable metrics and represented 6.3% of final pre-tax profit adjusted for exceptional items and certain re-measurements, 2.3% of shareholder's equity and 4.3% of free cash flow.	We determined company materiality based on 1.0% (2020: 1.0%) of estimated net assets but capped materiality at 95% (2020: 95%) of Group materiality. Our final materiality constituted 0.6% of net assets (2020: 0.6% of net assets).
Rationale for the benchmark applied	We consider it appropriate to consider a range of applicable metrics in establishing materiality, because of the complexity of the income statement arising from significant exceptional items, re-measurements and discontinued operations, and the importance of cash flow and balance sheet metrics to users of the financial statements. We considered our established materiality against the final audit results and concluded that it remained appropriate in the context of the financial statements as a whole.	We considered net assets to be the most appropriate benchmark given the primary purpose of the company is a holding company

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality at 70% of Group and Company materiality included: • The overall quality of the control environment and that we were able to rely on controls in certain of the Group's businesses. • The nature, size and number of uncorrected misstatements identified in previous audits and management's willingness to correct those adjustments.	

Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all individual audit differences in excess of £5m (2020: £5m), and in aggregate all audit differences in excess of £1.8m (2020: £1.5m) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

The Group is organised into segments as outlined in note 4. These segments contain a number of individual businesses, and we use these businesses as the basis for identifying and scoping components. During 2021 the Group completed the sale of the Direct Energy segment. There were no other substantial changes in the remaining segments listed below.

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Having performed this assessment, we established the following audit scope for each of the Group's businesses.

Segment	Business	Audit scope
British Gas Energy	British Gas Energy	Full scope audit
British Gas Services and Solutions	Regulated entities	Full scope audit
	Non-regulated parts of British Gas Services and Solutions segment	Review procedures
Bord Gáis Energy	Bord Gáis Energy	Audit of specified account balances
Energy, Marketing & Trading	Energy, Marketing & Trading	Full scope audit
Centrica Business Solutions	New Energy Services	Audit of specified account balances
	Energy supply	Full scope audit
Upstream	Nuclear	Audit of specified account balances
	Spirit Energy	Full scope audit
	Centrica Storage	Audit of specified account balances

This scoping resulted in 96% of Group revenue, 98% of Group adjusted profit before tax and 92% of Group shareholders' equity being subject to audit. The equivalent figures in 2020 were 95% of Group revenue, 99% of final pre-tax profit adjusted for exceptional items and 90% of shareholders' equity.

Our consideration of the control environment

Our audit strategy is to rely on controls over certain processes within the more established businesses of the Group. These included revenue within British Gas Energy, British Gas Services and Solutions, CBS Energy and Bord Gáis Energy; credit loss provisions in British Gas; and the Group's central payroll and expenditure processes.

The use of data analytics in Energy, Marketing and Trading means the need for controls reliance is reduced as we are able to test close to 100% of all transactions.

Given the importance of IT to the recording of financial information and transactions, we assessed the design and implementation of general IT controls, and placed reliance on those controls in certain areas. The key IT systems we included in scope includes the Group's SAP general ledger and consolidation financial reporting systems, the SAP revenue reporting systems in British Gas Energy, CBS Energy and Bord Gáis Energy, the Endur trading system in Energy, Marketing and Trading, and Workday used to manage the Group's payroll processes.

Our consideration of climate-related risks

We reviewed management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered climate change within our audit risk assessment process.

Management's identified risks of material misstatement included:

- Consideration of the Net Zero price scenario in non-current asset impairment tests (other than goodwill);
- Consideration of transition risks in goodwill impairment tests.

Management's conclusion is that climate change, at present, does not materially impact the valuation of goodwill as disclosed in note 15(b), principally relating to energy supply, the services business and Energy Marketing & Trading.

Our response to identified the Net Zero price risk scenario is documented within the 'Impairment reversals of Exploration and Production (E&P) assets and the Group's investment in Nuclear' key audit matter.

With the involvement of our climate specialists, we:

- evaluated financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed;
- read the climate change-related statements (as disclosed in the 'People and Planet' section in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit; and
- assessed the Task Force on Climate-related Financial Disclosures ('TCFD') for compliance against the recommendations of the TCFD framework.

Working with other auditors

All components except for Bord Gáis Energy are audited from the UK and we oversee all component audits through regular meetings and direct supervision.

Due to COVID-19 and the restrictions on travel, we were not able to visit Ireland during the year. However, as COVID-19 restrictions in the UK eased, we were able to interact in person with our UK component teams including holding a 2-day planning meeting with all component teams and specialists to discuss audit execution and our risk assessment, including risks of material misstatement due to fraud.

The Group audit team was directly involved in overseeing the component audit planning and execution, through frequent conversations, virtual and in person meetings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our component audit teams, attended audit closing meetings, and reviewed their audit working papers.

We are satisfied that the level of involvement of the lead audit partner and group audit team in the component audits has been extensive, despite the restrictions from COVID-19 and the impact of remote working, and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. This information comprises the Strategic report, the Directors' and Corporate Governance report, the Committee reports, the Remuneration Report and the Other Statutory Information. 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.

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 Directors' responsibilities statement, 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 Group's and 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 Group or 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.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error including the Group's fraud risk programme;
- results of our enquiries of management, internal audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including the component audit teams and relevant internal specialists, including tax, valuations, pensions, climate change, treasury and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- credit losses on billed debt;
- the valuation of unbilled receivables; and
- impairment reversals in respect of the Group's investment in Nuclear.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, the UK Listing Rules and pensions and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the Office of Gas and Electricity Markets (Ofgem) and Regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

As a result of performing the above, we identified the following as key audit matters related to the potential risk of fraud: (1) impairment reversals in respect of the Group's investment in Nuclear and (2) credit losses on billed debt. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee, in-house legal counsel and the Group's ethics team concerning actual and potential litigation and claims;
- reviewing the reporting to the Audit and Risk Committee, on matters relating to fraud and potential non-compliance with laws and regulations including the Group's whistleblowing programme;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofgem, the FCA and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addressing the risk of fraud in the valuation of unbilled revenue, we involved data analytics specialists in recalculating unbilled revenue recorded by the Group's billing systems.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with 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 Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 97;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 44 to 46;
- the directors' statement on fair, balanced and understandable set out on page 62;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 39;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 62; and
- the section describing the work of the Audit and Risk Committee set out on pages 61 to 68.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by shareholders on 10 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2017 to 31 December 2021.

Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

James Leigh FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
23 February 2022

Group Income Statement

Year ended 31 December	Notes	2021 Business performance £m	2021 Exceptional items and certain re-measurements £m	2021 Results for the year £m	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Results for the year £m
Continuing operations							
Group revenue	4,7	**18,300**	**(3,556)**	**14,744**	14,949	(2,700)	12,249
Cost of sales (i)	5,7	**(15,430)**	**2,749**	**(12,681)**	(12,616)	4,118	(8,498)
Re-measurement and settlement of derivative energy contracts	7	**–**	**(434)**	**(434)**	–	(632)	(632)
Gross profit	4,7	**2,870**	**(1,241)**	**1,629**	2,333	786	3,119
Operating costs before exceptional items and credit losses on financial assets	5	**(1,703)**	**–**	**(1,703)**	(1,714)	–	(1,714)
Credit losses on financial assets	5,17	**(116)**	**–**	**(116)**	(195)	–	(195)
Exceptional items – net impairment reversals/(impairments)	7	**–**	**1,218**	**1,218**	–	(1,319)	(1,319)
Exceptional items – net restructuring cost reversals/(charge) and other	7	**–**	**29**	**29**	–	(274)	(274)
Operating costs	5	**(1,819)**	**1,247**	**(572)**	(1,909)	(1,593)	(3,502)
Share of (losses)/profits of joint ventures and associates, net of interest and taxation	6	**(103)**	**–**	**(103)**	23	(2)	21
Group operating profit/(loss)	4	**948**	**6**	**954**	447	(809)	(362)
Net finance cost	8	**(187)**	**–**	**(187)**	(215)	–	(215)
Profit/(loss) from continuing operations before taxation		**761**	**6**	**767**	232	(809)	(577)
Taxation on profit/(loss) from continuing operations	7,9	**(454)**	**236**	**(218)**	(42)	187	145
Profit/(loss) from continuing operations after taxation		**307**	**242**	**549**	190	(622)	(432)
Discontinued operations (ii)	7,12	**–**	**624**	**624**	213	102	315
Profit/(loss) for the year		**307**	**866**	**1,173**	403	(520)	(117)
Attributable to:							
Owners of the parent		**237**	**973**	**1,210**	378	(337)	41
Non-controlling interests		**70**	**(107)**	**(37)**	25	(183)	(158)

Earnings per ordinary share	Notes	2021 Pence	2020 Pence
From continuing and discontinued operations			
Basic	10	**20.7**	0.7
Diluted	10	**20.5**	0.7
From continuing operations			
Basic	10	**10.0**	(4.7)
Diluted	10	**9.9**	(4.7)
Interim dividend paid per ordinary share	11	**–**	–
Final dividend proposed per ordinary share	11	**–**	–

(i) Cost of sales includes £2,530 million (2020: £nil) of onerous energy supply contract provision within the certain re-measurements column. See note 3.
(ii) Profit from discontinued operations is entirely attributable to equity holders of the parent.

The notes on pages 117 to 210 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2021 £m	2020 £m
Profit/(loss) for the year		**1,173**	(117)
Other comprehensive income/(loss)			
Items that will be or have been reclassified to the Group Income Statement:			
Impact of cash flow hedging (net of taxation)	S4	**(6)**	9
Exchange differences on translation of foreign operations (i)	S4	**(49)**	(54)
Exchange differences reclassified to Group Income Statement on disposal (i)	S4	**(20)**	12
(Losses)/gains on net investment hedging (net of taxation) (ii)	S4	**(40)**	40
Items that will not be reclassified to the Group Income Statement:			
Net actuarial gains/(losses) on defined benefit pension schemes (net of taxation)	S4	**144**	(379)
Gains/(losses) on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation)	S4	**3**	(4)
Share of other comprehensive income of associates, net of taxation	14,S4	**152**	58
Other comprehensive income/(loss), net of taxation		**184**	(318)
Total comprehensive income/(loss) for the year		**1,357**	(435)
Attributable to:			
Owners of the parent		**1,397**	(277)
Non-controlling interests	S11	**(40)**	(158)
Total comprehensive income/(loss) attributable to owners of the parent arises from:			
Continuing operations		**833**	(571)
Discontinued operations		**564**	294
		1,397	(277)

(i) Exchange differences on translation of foreign operations includes £46 million (2020: £50 million) of losses attributable to the equity holders of the parent, and £3 million (2020: £4 million) of losses attributable to non-controlling interests. Exchange differences reclassified to Group Income Statement on disposal includes a £20 million gain (2020: £8 million loss) attributable to the equity holders of the parent, and £nil (2020: £4 million loss) attributable to non-controlling interests. See note S4.

(ii) The Group recommenced its strategy of net investment hedging in advance of the disposal of Direct Energy. See note S2 for details.

The notes on pages 117 to 210 form part of these Financial Statements.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2020	360	2,330	(869)	(609)	1,212	583	1,795
Profit/(loss) for the year	–	–	41	–	41	(158)	(117)
Other comprehensive loss	–	–	–	(318)	(318)	–	(318)
Total comprehensive income/(loss)	–	–	41	(318)	(277)	(158)	(435)
Employee share schemes and other share transactions	1	17	(8)	12	22	–	22
31 December 2020	361	2,347	(836)	(915)	957	425	1,382
Profit/(loss) for the year	–	–	1,210	–	**1,210**	(37)	**1,173**
Other comprehensive income/(loss)	–	–	–	187	**187**	(3)	**184**
Total comprehensive income/(loss)	–	–	1,210	187	**1,397**	(40)	**1,357**
Employee share schemes and other share transactions	2	30	3	(24)	**11**	–	**11**
31 December 2021	**363**	**2,377**	**377**	**(752)**	**2,365**	**385**	**2,750**

The notes on pages 117 to 210 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Property, plant and equipment	13	**1,985**	2,643
Interests in joint ventures and associates	14	**1,628**	843
Other intangible assets	15	**760**	1,011
Goodwill	15	**401**	929
Deferred tax assets	16	**823**	636
Trade and other receivables, and contract-related assets	17	**233**	145
Derivative financial instruments	19	**1,005**	366
Retirement benefit assets	22	**231**	–
Securities	24	**135**	134
		7,201	6,707
Current assets			
Trade and other receivables, and contract-related assets	17	**5,881**	2,801
Inventories	18	**644**	324
Derivative financial instruments	19	**6,545**	1,224
Current tax assets		**83**	132
Cash and cash equivalents	24	**5,060**	1,820
		18,213	6,301
Assets of disposal groups classified as held for sale	12	**1,672**	4,111
		19,885	10,412
Total assets		**27,086**	17,119
Current liabilities			
Derivative financial instruments	19	**(4,929)**	(747)
Trade and other payables, and contract-related liabilities	20	**(7,513)**	(3,722)
Current tax liabilities		**(333)**	(235)
Provisions for other liabilities and charges	21	**(2,769)**	(188)
Bank overdrafts, loans and other borrowings	24	**(1,204)**	(787)
		(16,748)	(5,679)
Liabilities of disposal groups classified as held for sale	12	**(1,228)**	(1,986)
		(17,976)	(7,665)
Non-current liabilities			
Deferred tax liabilities	16	**(36)**	(149)
Derivative financial instruments	19	**(1,080)**	(181)
Trade and other payables, and contract-related liabilities	20	**(120)**	(114)
Provisions for other liabilities and charges	21	**(1,454)**	(2,438)
Retirement benefit obligations	22	**(231)**	(601)
Bank loans and other borrowings	24	**(3,439)**	(4,589)
		(6,360)	(8,072)
Total liabilities		**(24,336)**	(15,737)
Net assets		**2,750**	1,382
Share capital	25	**363**	361
Share premium		**2,377**	2,347
Retained earnings		**377**	(836)
Other equity	S4	**(752)**	(915)
Total shareholders' equity		**2,365**	957
Non-controlling interests	S11	**385**	425
Total shareholders' equity and non-controlling interests		**2,750**	1,382

The Financial Statements on pages 112 to 210, of which the notes on pages 117 to 210 form part, were approved and authorised for issue by the Board of Directors on 23 February 2022 and were signed below on its behalf by:

Chris O'Shea
Group Chief Executive

Kate Ringrose
Group Chief Financial Officer

Centrica plc Registered No: 03033654

Group Cash Flow Statement

Year ended 31 December	Notes	2021 £m	2020 £m
Continuing operations:			
Group operating profit/(loss) including share of results of joint ventures and associates		**954**	(362)
Add back/(deduct) share of losses/(profits) of joint ventures and associates, net of interest and taxation	6	**103**	(21)
Group operating profit/(loss) before share of results of joint ventures and associates		**1,057**	(383)
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		**(415)**	2,217
Loss on disposals		**28**	28
Increase in provisions		**2,434**	46
Cash contributions to defined benefit schemes in excess of service cost income statement charge		**(388)**	(42)
Employee share scheme costs		**12**	34
Unrealised gains arising from re-measurement of energy contracts		**(1,159)**	(666)
Exceptional charges reflected directly in operating profit		**12**	49
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges		**1,581**	1,283
(Increase)/decrease in inventories		**(361)**	4
(Increase)/decrease in trade and other receivables and contract-related assets relating to business performance		**(3,358)**	363
Increase/(decrease) in trade and other payables and contract-related liabilities relating to business performance		**3,965**	(571)
Operating cash flows before payments relating to taxes and exceptional charges		**1,827**	1,079
Taxes paid	9	**(140)**	(2)
Payments relating to exceptional charges in operating costs	7	**(76)**	(120)
Net cash flow from continuing operating activities		**1,611**	957
Net cash flow from discontinued operating activities	12	**–**	443
Net cash flow from operating activities		**1,611**	1,400
Continuing operations:			
Purchase of businesses, net of cash acquired		**(14)**	–
Sale of businesses	12	**70**	43
Purchase of property, plant and equipment and intangible assets	4	**(420)**	(489)
Sale of property, plant and equipment and intangible assets		**36**	–
Disposal of/(investments in) joint ventures and associates	14	**2**	(10)
Dividends received from joint ventures and associates	14	**2**	62
Receipt of sub-lease capital payments	24	**–**	3
Interest received		**2**	7
Settlement and sale of securities	24	**(3)**	121
Net cash flow from continuing investing activities		**(325)**	(263)
Net cash flow from discontinued investing activities	12	**2,588**	(22)
Net cash flow from investing activities		**2,263**	(285)
Continuing operations:			
Payments for own shares	S4	**–**	(30)
Proceeds from sale of forfeited share capital		**1**	–
Financing interest paid	24	**(233)**	(202)
Repayment of borrowings and capital element of leases	24	**(706)**	(234)
Net cash flow from continuing financing activities		**(938)**	(466)
Net cash flow from discontinued financing activities	12	**–**	(16)
Net cash flow from financing activities		**(938)**	(482)
Net increase in cash and cash equivalents		**2,936**	633
Cash and cash equivalents including overdrafts, and cash classified as held for sale at 1 January		**1,393**	794
Effect of foreign exchange rate changes		**(1)**	(34)
Cash and cash equivalents including overdrafts at 31 December	24	**4,328**	1,393
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents		**5,060**	1,820
Overdrafts included within current bank overdrafts, loans and other borrowings		**(750)**	(534)
Assets of disposal groups classified as held for sale		**18**	107

The notes on pages 117 to 210 form part of these Financial Statements.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

The notes to these Financial Statements focus on areas that are key to understanding our business. Additional information that we are required to disclose by accounting standards or regulation is disclosed in the Supplementary Information (notes S1 to S11).

In addition, for clarity, notes begin with a simple introduction outlining its purpose.

1. Basis of preparation and summary of significant new accounting policies and reporting changes

This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2021 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). Unless otherwise stated, these policies have been consistently applied to the years presented.

(a) Basis of preparation

The consolidated Financial Statements have been prepared in accordance with the United Kingdom adopted International Accounting Standards, with International Financial Reporting Standards as issued by the IASB and in conformity with the requirements of the Companies Act 2006.

The consolidated Financial Statements have been prepared on the historical cost basis except for: certain gas and oil inventory, derivative financial instruments, financial instruments required to be measured at fair value through profit or loss or other comprehensive income, and those financial instruments so designated at initial recognition, and the assets of the Group's defined benefit pension schemes that have been measured at fair value; the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying values of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(b) New accounting policies, standards, amendments and interpretations effective or adopted in 2021

From 1 January 2021, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- Amendments to IFRS 17 and IFRS 4: 'Insurance Contracts' – deferral of IFRS 9; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

Phase 2 of the Interest Rate Benchmark Reform, including the amendments to accounting standards noted above, became effective on 1 January 2021. Under Phase 2, to the extent that modifications are made to financial instruments that are necessary to implement Interest Rate Benchmark Reform, reliefs from the discontinuation of hedge accounting or immediate recognition of any gains or losses in the income statement on the modification of financial instruments measured at amortised cost are available on transition to alternative rates, provided that the modification is a direct consequence of the reform and the new basis for calculating cash flows is economically equivalent to the previous basis.

The Group will apply the International Swaps and Derivatives Associates (ISDA) fallback protocol to the derivative financial instruments held by the Group affected by the IBOR Reform where the interest rate benchmark is linked to GBP Libor. These instruments primarily comprise interest rate swap agreements designated in fair value hedge relationships. The ISDA fallback rates are derived from the Sterling Overnight Interbank Average (SONIA) rate and are calculated and published by Bloomberg. The Group has determined that Phase 1 reliefs no longer apply in respect of GBP Libor - the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows ceased on 31 December 2021, at the point of transition to the ISDA fallback protocol. The Group also has interest rate swap agreements designated in fair value hedge relationships which are linked to USD Libor which are expected to remain in place until 2023, uncertainty over its replacement still exists.

The Group has determined that the reliefs available under Phase 2 of the Reform are available and has amended the formal designation of hedge relationships; hedge accounting is expected to continue.

The amendments to IFRS 4 defer the date of application of IFRS 17 to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9 until 1 January 2023.

These changes and other amendments effective during the year did not materially impact the consolidated Financial Statements.

Accounting policy for Supplier of Last Resort claim

During the year the Group has been appointed as Supplier of Last Resort (SoLR) to a number of energy suppliers who have ceased to trade. Under Ofgem licence conditions, the Group is entitled to make a Last Resort Supplier Payment (LRSP) claim for incremental costs reasonably incurred to supply affected customers. The claim is permitted by Ofgem to ensure that energy suppliers can provide support and stability to the market, through a period of significant volatility. In accounting for the receivable arising under the claim, the Group has applied IAS 20 'Government Grants' on the basis that the LRSP is a form of assistance provided by Ofgem which permits suppliers to recover the incremental costs of supply associated with SoLR appointment. At the reporting date, the Group has recognised a receivable to the extent that these additional costs of supply have been incurred. A credit, offsetting the associated costs, has been recognised in cost of sales and operating costs in the Income Statement (see note 5). The Group is entitled to recover the incremental costs of supply until six months post SoLR appointment. The Group submitted the first of two LRSP claims to Ofgem in December 2021 and this is expected to be settled in monthly instalments between April 2022 and April 2023. A second claim will be made in Autumn 2022 to both adjust the first claim for actual costs incurred, and to claim for additional costs not previously included. The second claim will be settled between April 2023 and April 2024.

1. Basis of preparation and summary of significant new accounting policies and reporting changes

Update to certain re-measurements accounting policy

The Group has determined that at the balance sheet date, the future cost to fulfil certain supply contracts in the Residential and Business portfolios will exceed the charges recovered from customers under these contracts. This is because at the reporting date, the Group has already recognised the gains on the related hedges, as certain re-measurements in the Income Statement. In applying IAS 37, the Group has estimated the unavoidable costs of fulfilling customer contracts, including reversing the hedging gains, and has recognised the expense as an onerous contract provision within cost of sales, also in certain re-measurements in the Income Statement.

Further detail on both of these policies is included in the Group's critical accounting judgements.

Change in accounting treatment of deferred tax movements arising from pension balances

IAS 12 allows for the reasonable allocation of current and deferred tax charges and credits in respect of items where the movements in those items are recognised outside of the Income Statement, such as movements on the Group's pension assets and liabilities. The Group previously allocated all deferred tax movements arising on the pension schemes, including those associated with a change in the rate of deferred tax, to the Income Statement and the Statement of Other Comprehensive Income, on the basis of the cumulative charges and credits to those statements. However, the Group has now simplified its policy, and movements on deferred tax associated with both actuarial gains and losses, and deficit payments are now recognised in the Statement of Other Comprehensive Income, including in respect of tax rate changes, as the majority of timing differences arise from actuarial movements which are dealt with in the Statement of Other Comprehensive Income.

The Group has therefore recognised a £19 million debit in the year in the Statement of Other Comprehensive Income, representing the impact of tax rate changes in respect of the opening pension scheme balance, including the impact of previous asset backed contributions, and payments made during the year. This approach will be consistently applied to all future re-measurement of the deferred tax balances in respect of the pension scheme as a result of tax rate changes.

As a result of this change, current tax associated with in-year pension deficit payments will also be recognised in the Statement of Other Comprehensive Income. A credit of £16 million has been recognised during the year (offset by an equivalent movement in deferred tax).

In 2020, the Group recognised part of the difference due to tax rate change, arising from the re-measurement of the deferred tax balance in respect of pension scheme balances, through the income statement giving rise to a tax charge of £22 million. The Group has not restated the comparatives as the amount is not material.

(c) Standards and amendments that are issued but not yet applied by the Group

At the date of authorisation of these consolidated Financial Statements, the Group has not applied the following new and revised standards and amendments that have been issued but are not yet effective:

- IFRS 17: 'Insurance contracts', effective from 1 January 2023;
- Amendments to IAS 37; 'Provisions, Contingent Liabilities and Contingent Assets', effective from 1 January 2022. The amendments specify which costs an entity should include when assessing whether a contract is onerous and therefore requires a provision;
- Amendments to IAS 1: 'Presentation of Financial Statements', effective from 1 January 2023. The amendments clarify the meaning of settlement in the context of liabilities, and the circumstances in which liabilities are classified as current or non-current;
- 'Annual Improvements to IFRS 2018-2020', effective from 1 January 2022;
- Amendments to IAS 8: 'Accounting policies, Changes in Accounting Estimates and Errors'; effective from 1 January 2023;
- Amendments to IAS 1 relating to the disclosure of accounting policy and materiality judgements, effective from 1 January 2023;
- Amendments to IAS 12: 'Income Taxes'; effective from 1 January 2023; and
- Amendments to IAS 16: 'Property, Plant and Equipment'; effective from 1 January 2022.

IFRS 17 will be effective from 1 January 2023. The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. The Group is currently carrying out an assessment of IFRS 17 and expects these contracts to fall within the scope of IFRS 17 where the Group reflects an assessment of the risk associated with an individual customer in setting the price of the contract. The Group expects to apply the simplified 'Premium Allocation Approach' to its contracts on the basis that the coverage period of the Group's insurance contracts is not greater than one year. Whilst work is ongoing, the Group does not expect a material impact from its application.

Management does not expect other issued but not effective amendments or standards, or standards not discussed above to have a material impact on the consolidated Financial Statements.

(d) Restatements

During 2020 the Group's reportable operating segments were amended due to a change in the way management review and make decisions about the business. During 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services & Solutions, reflecting additional restructuring and management changes that have occurred. At the same time the results from the supply of energy to small business customers have been moved to British Gas Energy from Centrica Business Solutions to reflect how these customers are managed; comparatives have been restated.

The operating segments are now defined as:

- British Gas Services & Solutions;
- British Gas Energy;
- Centrica Business Solutions;
- Bord Gáis Energy;
- Energy Marketing & Trading;
- Upstream; and
- Direct Energy (Discontinued operation).

Collateral posted/(received) has been removed from the Group's definition of net debt. See note 24.

2. Centrica specific accounting measures

This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

(a) Use of adjusted performance measures

The Directors believe that reporting adjusted measures (revenue, margin, profit, earnings per share and cash flow) provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes, are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

Management uses adjusted revenue, adjusted gross margin and adjusted operating profit to evaluate segment performance. They are defined as revenue/gross margin/operating profit before:

- exceptional items; and
- certain re-measurements.

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. See section (b) of this note for further details.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation; and
- certain re-measurements net of taxation.

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 10.

Free cash flow is used by management to assess the cash generating performance of each segment. Segmental free cash flow is defined as net cash flow from operating and investing activities before:

- deficit reduction payments made to the UK defined benefit pension schemes;
- movements in variation margin and collateral;
- interest received;
- sale, settlement and purchase of securities; and
- taxes paid and refunded.

Segmental free cash flow as assessed by management excludes cash flows relating to tax. This is because the effect of group relief and similar reliefs could distort the measure of segment performance. As a Group-wide measure, free cash flow includes taxes paid and refunded.

Free cash flow gives a measure of the cash generation performance of the business after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in variation margin and collateral, which are predominantly triggered by wider market factors and, in the case of collateral and margin movements, represent timing differences, free cash flow gives a measure of the underlying performance of the Group.

Interest received and cash flows from the sale, settlement and purchase of securities are excluded from free cash flow as these items are included in the Group's net debt measure (as restated – see note 24) and are therefore viewed by the Directors as related to the manner in which the Group finances its operations.

(b) Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide users with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets and contracts (and similar capacity or off-take arrangements), as well as to meet the future needs of its customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement, they are prohibited from being designated as 'own use' and so IFRS 9: 'Financial Instruments' requires them to be individually fair valued.

Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Similarly, where our downstream customer supply contracts have become onerous as a result of significant market price movements (and the fact any associated commodity hedges have separately been recognised at fair value under IFRS 9 and therefore the onerous supply contract assessment must reflect the reversal of those gains in subsequent periods), movements in the required provision are also reflected as a certain re-measurement in the 'Cost of sales' line item and separately disclosed in note 7. Movements in this provision do not reflect the underlying performance of the business because they are economically related to both the hedges and forecast future profitability of the supply contracts. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in revenue in the business performance column of the Group Income Statement.

The Group's result for the year presents both realised and unrealised fair value movements on all derivative energy contracts within the 'Re-measurement and settlement of energy contracts' line item. The Group's results for the year presents the unrealised onerous supply contract provision movements within the 'Cost of sales' line item.

2. Centrica specific accounting measures

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings (including property rationalisation costs), debt repurchase costs, certain pension past service credits/costs, asset impairments/write-backs, the tax effects of these items and the effect of changes in UK upstream tax rates.

The Group distinguishes between business performance asset impairments/write-backs and exceptional impairments/write-backs on the basis of the underlying driver of the impairment, as well as the magnitude of the impairment. Drivers that are deemed to be outside of the control of the Group (e.g. commodity price changes) give rise to exceptional impairments. Additionally, impairment charges that are of a one-off nature (e.g. reserve downgrades or one-time change in intended use of an asset) and significant enough value to distort the underlying results of the business are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are reflected in business performance.

3. Critical accounting judgements and key sources of estimation uncertainty

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

In addition to the judgements described above, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the consolidated Group Financial Statements.

Spirit Energy consolidation

During 2017, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing exploration and production business to form the Spirit Energy business (SE). The Group, through its board majority, can control decisions that represent Board Reserved Matters and the Directors consider that these rights provide control over the relevant activities that most significantly influence the variable returns of the SE business. The Group has concluded that it controls SE and consequently SE is fully consolidated with a non-controlling interest of 31%.

Metering contracts

In both current and previous years, as part of the smart meter roll-out, the Group renewed meter rental arrangements with third parties. The Group assessed that these were not leases under IAS 17 and IFRIC 4 because at inception of the contract there were no specified assets, the Group did not have the right to physically or operationally control the smart meters and other parties took more than an insignificant amount of the output from the assets. This assessment was grandfathered on adoption of IFRS 16.

A reassessment of the contracts was performed in accordance with IFRS 16, following renegotiations of the meter rental arrangements. On the basis that the asset has a predetermined use and the Group neither has the right to operate the asset, nor was involved in its design, the conclusion that these arrangements are not leases continues to be appropriate.

LNG contracts

The Group is active in the liquified natural gas (LNG) market, both procuring long-term LNG supply arrangements and transacting in shorter-term LNG cargoes. As part of its operations in the market, the Group optimises its contractual positions in order to meet customer demand for physical commodity. In response to the continuing development of the global LNG market which, consistent with prior years, is not considered to be active, the Group has reviewed its portfolio of LNG transactions and contracts. It has judged that its activities are carried out for the purpose of receipt or delivery of physical commodity in accordance with its expected purchase and sale requirements. As a result, the Group's contracts to buy and sell LNG are outside the scope of IFRS 9 and are accounted for on an accruals basis.

Assets held for sale and discontinued operations

On 24 July 2020, the Group announced that it had agreed to dispose of its North American supply, services and trading business, Direct Energy, to NRG for headline consideration of \$3.6 billion (£2.7 billion) on a debt free, cash free basis. The Group judged that the assets and liabilities of the business should be classified as a disposal group held for sale from that date and as at 31 December 2020. Additionally, because the disposal group represented a separate major line of business and geographic area of operation, its results have been presented as discontinued operations. The sale completed on 5 January 2021.

On 8 December 2021 the Group announced that it had agreed to sell Spirit Energy's entire Norwegian portfolio plus the Statfjord field to Sval Energi and Equinor for headline consideration of c.£800m. Completion is expected in the second quarter of 2022. See note 12.

In applying IFRS 5: 'Non-current assets held for sale and discontinued operations' to the Spirit Energy disposal group, the Group has judged that the assets and liabilities comprising the disposal group should be classified as held for sale as at 8 December 2021. This is on the basis that at that point, the disposal group was available for immediate sale, subject only to terms that are customary for sales of such assets, and the sale was highly probable.

The disposal group does not represent a separate major line of business or geographical operations, because the Upstream segment retains other European producing fields, and hence the Group has concluded the disposal group does not constitute a discontinued operation.

Supplier of Last Resort (SoLR)

During 2021, the Group was appointed as the Supplier of Last Resort to eight suppliers who ceased trading during the year. Under Ofgem's licence conditions, the Group is entitled to make a Last Resort Supplier Payment (LRSP) claim for the shortfall between costs reasonably incurred in supplying gas and electricity to premises under the Last Resort Supply Direction, and the charges recovered from customers.

Ofgem published a decision setting out temporary changes to the process for claiming the LRSP and as a result, the Group submitted an initial claim, covering a six month period from the date of appointment, and received confirmation of Ofgem's acceptance in December 2021. The claim primarily covers incremental commodity costs, incurred as a result of procuring gas and electricity to supply affected customers. The Group expects this claim to be settled in monthly instalments between April 2022 and April 2023. The Group will submit a second claim to Ofgem by Autumn 2022, recognising both actual commodity costs incurred, and additional costs which were not included in the initial claim. This includes the recovery of customer credit balances, where the Group has not waived the right to do so. The second claim will be settled between April 2023 and April 2024. The value recognised for the receivable at 31 December 2021 is £234 million, offsetting costs incurred of £185 million and customer credit balances of £49 million recognised at that date.

The Group has concluded that the LRSP process represents an Ofgem support mechanism, enabling energy suppliers to provide stability to the customers of failed suppliers. The Group determines that the LRSP is within the scope of IAS 20 'Government Grants' and amounts receivable under the mechanism are recognised as a credit within cost of sales and operating costs, as the related expenses are incurred.

3. Critical accounting judgements and key sources of estimation uncertainty

(b) Key sources of estimation uncertainty

The sections below detail the assumptions the Group makes about the future and other major sources of estimation uncertainty when measuring its assets and liabilities at the reporting date. The information given relates to the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to those assets and liabilities in the next financial year.

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

British Gas Energy and Centrica Business Solutions Onerous Supply Contracts

The Group operates and manages a hedging strategy to ensure that the future costs of supplying customers of the British Gas Energy and Centrica Business Solution portfolios are appropriately managed.

Hedges are measured at fair value under IFRS 9 and are recognised as certain re-measurements in the Group's income statement until the point at which the related costs to purchase electricity and gas are incurred. Fair value movements on energy purchase contracts entered to meet the future needs of customers are economically related to customer demand; the supply contracts for which are measured on an accrual basis.

Gains arising from hedges have been recognised in the income statement (within certain re-measurements) in accordance with the requirements of IFRS 9. Because of this hedge value recognition, the assessment of whether the supply contracts are onerous must include the reversal of mark to market gains. The Group determines that at the reporting date, the future costs to fulfil customer contracts, including those mark to market reversals, will exceed the charges recovered from customers because the associated hedging gains have already been recognised in the income statement.

The Group has recognised an onerous supply contract provision of £2,530 million at 31 December 2021. This has been calculated by estimating the expected margins from energy supply customers, and deducting from this margin the expected costs to fulfil those arrangements, including energy purchase costs reflecting the mark to market gains, and directly attributable overhead costs. For customers where this results in a loss, an onerous contract provision is recorded.

Key sources of estimation uncertainty relate to the expected future tenure of the Group's customer portfolio at 31 December 2021, and the estimated gross margin attributable to them. Estimations are based on historic experience, adjusted to reflect non-recurring costs.

The British Gas Energy residential element of the provision is particularly sensitive to movements in tenure and gross margin assumptions. The model indicates that a customer tenure of eight years or more is not expected to be onerous. The gross margin for 31 December 2021 can be found in note 4. The element of the provision relating to business customers is much less sensitive to the assumptions made.

Sensitivities for residential customers are provided in the following table:

Assumption	Decrease/ (increase) in provision £m
Customer tenure one year longer/(shorter)	**170/(124)**
Gross margin 10% increase/(decrease)	**111/(150)**

Impairment and impairment reversals of long-lived assets

The Group makes judgements in considering whether the carrying amounts of its long-lived assets (principally Upstream gas and oil assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill) or cash generating units (CGUs) are recoverable and estimates their recoverable amounts.

2021 has seen significant increases in forward commodity prices, both in terms of observable market prices and forecast forward prices. As a result, impairment reversals have been booked related to our retained assets.

Upstream gas and oil assets

The recoverable amount of the Group's retained gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would consider when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves (see gas and liquid reserves below) and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on the median price of a collection of third-party comparator curves.

Further details of the assumptions used in determining the recoverable amounts, the impairment reversals booked during the year and sensitivity to the assumptions are provided in note 7.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting pre-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of outages and the likely operational lives of the stations.

Further details of the methodology, assumptions, impairment reversal booked during the year and related sensitivities are provided in note 7.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

The Group has determined that the small business supply portfolio is more closely aligned to the residential portfolio in terms of customer profile than the medium and large business portfolio who have more complex needs. As a result, this portfolio was transferred into the British Gas Energy segment during the year, and goodwill was reallocated based on a relative value calculation.

As a result of the proposed Spirit Energy Norway and Statfjord field disposal (see note 12), the Goodwill associated with exploration and production in the Upstream segment had to be apportioned between the retained business and the disposal group.

3. Critical accounting judgements and key sources of estimation uncertainty

The Group judged that the entire goodwill balance of £408 million should be allocated to the Norway disposal group as it was only this group of assets that had historically justified the recoverable amount.

Following this allocation, £198 million of goodwill has been written down so that the assets of the disposal group equal the expected recoverable amount.

Additionally, strategic changes in the Centrica Business Solutions customer business, with a re-focusing of product offerings and revised growth forecasts has led to a write-off of its entire goodwill balance of £103 million.

Further details on the goodwill balances, assumptions used in determining the recoverable amounts and impairment booked during the year are provided in notes 7, 15(b) and S2. Sensitivity to the assumptions is also found in note 7 for goodwill allocated to impaired CGUs in the year.

Credit provisions for trade and other receivables

The economic effects of the significant increase in wholesale gas and electricity costs, and resultant increase in consumer tariffs alongside wider inflationary pressures as well as the ongoing effects of the COVID-19 pandemic and cost of living pressures have impacted the ability of the Group's customers to pay amounts due. The level of estimation uncertainty in determining the credit provisions required for customers in different sectors and geographies continues to be raised.

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provision, along with associated sensitivities, are set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit pension schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the year in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. The Group is permitted to recognise a pension scheme asset because it has an unconditional right to a refund on any winding up of the schemes or if gradual settlement of liabilities over time is assumed.

The Group's defined benefit schemes hold part of their plan asset portfolio as unquoted assets. These include private equity and property interests that are typically subject to valuation uncertainty. The valuation of these assets is based on the latest asset manager views and other relevant benchmarks.

Further details, including sensitivities to these assumptions, are provided in note 22.

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits that will flow to the Group, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Group expects to be entitled to in exchange for energy supplied. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. The primary source of estimation uncertainty relating to unread revenue arises in the respect of gas and electricity sales to UK downstream customers in British Gas Energy and Centrica Business Solutions. At 31 December 2021 unread revenue arising from these customers amounted to £1,740 million (2020: £1,544 million). The judgements applied, and the assumptions underpinning these judgements in arriving at this estimated amount, are considered to be appropriate. However, a change in these assumptions of 2% would impact revenue by £35 million.

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance that will be achieved either through subsequent customer billing or through developing industry settlement procedures. The adjustments for imbalance at 31 December 2021 are not significant. Changes resulting from these management estimates can be material with adjustments of up to £30 million having been made in the last few years, although it could possibly be higher than these amounts in the future.

3. Critical accounting judgements and key sources of estimation uncertainty

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of gas and oil fields is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be predominantly incurred by 2030.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2021 is 0% (2020: 0%) on the basis that market risk-free rates remain suppressed. A 1% change in this discount rate would change the decommissioning liability by approximately £73 million.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids property, plant and equipment (PP&E) as well as being a significant estimate affecting decommissioning and impairment calculations.

The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 223.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value. A change in reserves estimates could also change the timing of decommissioning activity, which could change the carrying value of the Group's provisions. The complex interaction of field-specific factors means that it is not possible to give a meaningful sensitivity of the Group's financial position or performance to gas and liquids reserves estimates. Details of the Group's 2P reserves are given on page 223. Details of impairments of exploration and production fields and goodwill, along with associated sensitivities, are given in note 7.

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. More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6 and on the sensitivities to these assumptions in note S3.

4. Segmental analysis

The Group's reporting segments are those used internally by management to run the business and make decisions. The Group's segments are based on products and services as well as the major factors that influence the performance of these products and services across the geographical locations in which the Group operates.

(a) Segmental structure

During the year the Group's reportable operating segments have been amended due to a change in the way management review and make decisions about the business.

The types of products and services from which each reportable segment derived its income during the year are detailed below. Income sources are reflected in Group revenue unless otherwise stated:

Segment	Description
British Gas Services & Solutions	(i) The installation, repair and maintenance of domestic central heating and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK; and (ii) the supply of new technologies and energy efficiency solutions in the UK.
British Gas Energy	(i) The supply of gas and electricity to residential and small business customers in the UK.
Centrica Business Solutions	(i) The supply of gas and electricity and provision of energy-related services to business customers in the UK [i]; and (ii) the supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Bord Gáis Energy	(i) The supply of gas and electricity to residential and commercial and industrial customers in the Republic of Ireland; (ii) the installation, repair and maintenance of domestic central heating and related appliances in the Republic of Ireland; and (iii) power generation in the Republic of Ireland. [i]
Energy Marketing & Trading	(i) The procurement, trading and optimisation of energy in the UK and Europe [i]; (ii) the global procurement and sale of LNG; and (iii) the generation of power from the Spalding combined cycle gas turbine tolling contract (the contract ended in 2021).
Upstream	(i) The production and processing of gas and oil, principally within Spirit Energy [i]; and (ii) the sale of power generated from nuclear assets in the UK.
Direct Energy (Discontinued operation)	(i) The supply of gas and electricity, and provision of energy-related services to residential and business customers in North America; (ii) the installation, repair and maintenance of domestic central heating and cooling systems and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America; and (iii) the procurement, trading and optimisation of energy in North America [i].

(i) Where income is generated from contracts in the scope of IFRS 9, this is included in re-measurement and settlement of energy contracts.

Financial Statements

4. Segmental analysis

(b) Revenue

Gross segment revenue includes revenue generated from the sale of products and services to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.

Year ended 31 December	2021 Gross segment revenue £m	2021 Less inter-segment revenue £m	2021 Group revenue £m	2020 (restated) (i) Gross segment revenue £m	2020 (restated) (i) Less inter-segment revenue £m	2020 (restated) (i) Group revenue £m
Continuing operations						
British Gas Services & Solutions	**1,513**	**(53)**	**1,460**	1,547	(64)	1,483
British Gas Energy	**7,513**	**–**	**7,513**	7,007	–	7,007
Centrica Business Solutions	**1,981**	**(28)**	**1,953**	1,526	(8)	1,518
Bord Gáis Energy	**1,111**	**–**	**1,111**	820	–	820
Energy Marketing & Trading	**6,082**	**(214)**	**5,868**	2,917	(175)	2,742
Upstream	**2,282**	**(1,887)**	**395**	1,918	(539)	1,379
Group revenue included in business performance	**20,482**	**(2,182)**	**18,300**	15,735	(786)	14,949
Discontinued operations						
Direct Energy	**–**	**–**	**–**	9,483	–	9,483
Business performance revenue arising from continuing and discontinued operations	**20,482**	**(2,182)**	**18,300**	25,218	(786)	24,432
Less: revenue arising on contracts in scope of IFRS 9 included in business performance			**(3,556)**			(2,700)
Less: discontinued operations			**–**			(9,483)
Group Revenue			**14,744**			12,249

(i) Segmental revenues have been restated to reflect the new operating structure of the Group. See note 1 for further details.

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards. The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. The analysis of IFRS 15 revenue below reflects these factors.

Year ended 31 December	2021 Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
Continuing operations					
Energy services and solutions	**554**				
British Gas Services & Solutions	**554**	**906**	**1,460**	**–**	**1,460**
Energy supply – UK	**7,513**				
British Gas Energy	**7,513**	**–**	**7,513**	**–**	**7,513**
Energy supply – UK	**944**				
Energy services and solutions	**297**				
Centrica Business Solutions	**1,241**	**7**	**1,248**	**705**	**1,953**
Energy supply – Republic of Ireland	**903**				
Bord Gáis Energy	**903**	**–**	**903**	**208**	**1,111**
Energy sales to trading and energy procurement counterparties	**2,825**				
Energy Marketing & Trading	**2,825**	**35**	**2,860**	**3,008**	**5,868**
Gas and oil production	**760**				
Upstream	**760**	**–**	**760**	**(365)**	**395**
	13,796	**948**	**14,744**	**3,556**	**18,300**

4. Segmental analysis

Year ended 31 December	Revenue from contracts with customers in scope of IFRS 15 £m	Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m	Group Revenue £m	Revenue in business performance arising from contracts in scope of IFRS 9 £m	Group Revenue included in business performance £m
	2020 (restated) (i)				
Continuing operations					
Energy services and solutions	489				
British Gas Services & Solutions	489	994	1,483	–	1,483
Energy supply – UK	7,007				
British Gas Energy	7,007	–	7,007	–	7,007
Energy supply – UK	775				
Energy services and solutions	262				
Centrica Business Solutions	1,037	8	1,045	473	1,518
Energy supply – Republic of Ireland	725				
Bord Gáis Energy	725	–	725	95	820
Energy sales to trading and energy procurement counterparties	1,317				
Energy Marketing & Trading	1,317	–	1,317	1,425	2,742
Gas and oil production	672				
Upstream	672	–	672	707	1,379
	11,247	1,002	12,249	2,700	14,949

(i) Segmental revenues have been restated to reflect the new operating structure of the Group. See note 1 for further details. Furthermore, £40 million of prior year revenue relating to British Gas Services & Solutions has been reclassified from IFRS 15 to IFRS 4 revenue.

Geographical analysis of revenue and non-current assets

The Group monitors and manages performance by reference to its operating segments and not solely on a geographical basis. However, provided below is an analysis of revenue and certain non-current assets by geography.

Year ended 31 December	Group revenue (based on location of customer) 2021 £m	Group revenue (based on location of customer) 2020 £m	Non-current assets (based on location of assets) (i) 2021 £m	Non-current assets (based on location of assets) (i) 2020 £m
Continuing operations				
UK	**10,891**	9,787	**4,203**	3,691
Republic of Ireland	**903**	725	**139**	114
Norway	**212**	265	**–**	1,149
North America	**413**	266	**25**	34
Rest of the world	**2,325**	1,206	**505**	552
	14,744	12,249	**4,872**	5,540

(i) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial assets within trade and other receivables, and contract-related assets. Assets of disposal groups held for sale are not included.

4. Segmental analysis

(c) Adjusted gross margin and adjusted operating profit

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes business performance results of equity-accounted interests.

This note also details adjusted gross margin. Both measures are reconciled to their statutory equivalents.

	Adjusted gross margin		Adjusted operating profit	
Year ended 31 December	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Services & Solutions	**574**	664	**121**	191
British Gas Energy	**849**	890	**118**	82
Centrica Business Solutions	**143**	100	**(52)**	(132)
Bord Gáis Energy	**136**	154	**28**	42
Energy Marketing & Trading	**242**	281	**70**	174
Upstream	**926**	244	**663**	90
Adjusted gross margin/adjusted operating profit	**2,870**	2,333	**948**	447
Discontinued operations				
Direct Energy	**–**	862	**–**	252
Total Group adjusted gross margin/adjusted operating profit	**2,870**	3,195	**948**	699
Less discontinued operations	**–**	(862)	**–**	(252)
Business performance gross margin/operating profit from continuing operations	**2,870**	2,333	**948**	447
Certain re-measurements (continuing operations):				
Onerous energy supply contract provision	**(2,530)**	–	**(2,530)**	–
Derivative contracts	**1,289**	786	**1,289**	786
Share of re-measurement of certain associates' energy contracts (net of taxation)	**–**	–	**–**	(2)
Gross profit	**1,629**	3,119		
Exceptional items in operating profit (continuing operations)			**1,247**	(1,593)
Operating profit/(loss) after exceptional items and certain re-measurements			**954**	(362)

(i) Segmental results have been restated to reflect the new operating structure of the Group. See note 1 for further details.

4. Segmental analysis

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including a summary of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

	Depreciation and impairments of PP&E		Amortisation, write-downs and impairments of intangibles	
Year ended 31 December	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Services & Solutions	**(29)**	(38)	**(14)**	(34)
British Gas Energy	**(5)**	(11)	**(91)**	(88)
Centrica Business Solutions	**(14)**	(16)	**(34)**	(37)
Bord Gáis Energy	**(5)**	(5)	**(13)**	(12)
Energy Marketing & Trading	**(38)**	(30)	**(11)**	(12)
Upstream	**(461)**	(519)	**(25)**	(26)
Other (ii)	**(31)**	(40)	**(28)**	(44)
	(583)	(659)	**(216)**	(253)
Discontinued operations				
Direct Energy	**–**	(15)	**–**	(32)

(i) Segmental results have been restated to reflect the new operating structure of the Group. See note 1 for further details.
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairments of PP&E

During 2021, £3 million of impairments of PP&E (2020: £2 million) were recognised within business performance – £2 million in the Centrica Business Solutions segment and £1 million in the Upstream segment.

Write-downs and impairments of intangible assets

During 2021, £25 million of write-downs (2020: £24 million) relating to exploration and evaluation asset dry holes were recognised in the Upstream segment. All such current and prior year write-downs were recognised within business performance as they were not deemed exceptional in nature. During 2021, £3 million of other intangible assets were impaired within business performance in British Gas Energy, Energy Marketing & Trading and Other (2020: £3 million).

The recoverable amount of these assets was £nil.

4. Segmental analysis
(e) Capital expenditure

Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment and intangible assets. Capital expenditure has been reconciled to the related cash outflow.

	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
Year ended 31 December	**2021 £m**	2020 (restated) (i) £m	**2021 £m**	2020 (restated) (i) £m
Continuing operations				
British Gas Services & Solutions	**32**	19	**20**	25
British Gas Energy	**–**	–	**474**	636
Centrica Business Solutions	**17**	17	**166**	239
Bord Gáis Energy	**40**	4	**6**	7
Energy Marketing & Trading (ii)	**–**	206	**34**	61
Upstream	**238**	275	**51**	62
Other	**8**	8	**–**	5
	335	529	**751**	1,035
Discontinued operations				
Direct Energy	**–**	13	**–**	303
Group total capital expenditure	**335**	542	**751**	1,338
Less Discontinued operations	**–**	(13)	**–**	(303)
Related to continuing operations:				
Capitalised borrowing costs (note 8)	**(8)**	(7)	**–**	(6)
Inception of new leases and movements in payables and prepayments related to capital expenditure	**(49)**	(230)	**24**	43
Capital expenditure cash outflow subsequent to transfer to held for sale	**21**	–	**–**	–
Purchases of emissions allowances and renewable obligation certificates (note 15) (iii)	**–**	–	**(654)**	(875)
Net cash outflow (continuing operations)	**299**	292	**121**	197

(i) Segmental results have been restated to reflect the new operating structure of the Group. See note 1 for further details.
(ii) During 2020, the Group commenced the lease of two new LNG vessels.
(iii) Purchases of emissions allowances and renewable obligation certificates of £472 million (2020: £597 million) in British Gas Energy, £27 million (2020: £55 million) in Energy Marketing & Trading, and £155 million (2020: £223 million) in Centrica Business Solutions.

4. Segmental analysis

(f) Free cash flow

Free cash flow is used by management to assess the cash generating performance of each segment, after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in collateral and margin cash, which are predominantly triggered by wider market factors, and in the case of collateral and margin movements, represent timing movements, free cash flow gives a measure of the underlying cash generation of the business. Free cash flow excludes investing cash flows that are related to net debt. This measure is reconciled to the net cash flow from operating and investing activities.

Year ended 31 December	2021 £m	2020 (restated) (i) £m
Continuing operations		
British Gas Services & Solutions	170	260
British Gas Energy	16	(29)
Centrica Business Solutions	22	(50)
Bord Gáis Energy	3	35
Energy Marketing & Trading	206	241
Upstream	835	193
Other (ii)	62	37
Segmental free cash flow excluding tax	1,314	687
Discontinued operations		
Direct Energy	2,597	401
Group total segmental free cash flow excluding tax	3,911	1,088
Taxes paid from continuing operations	(140)	(2)
Taxes paid from discontinued operations	(9)	(25)
Group total free cash flow	3,762	1,061
Less Discontinued operations free cash flow (including tax)	(2,588)	(376)
Free cash flow from continuing operations	1,174	685
UK Pension deficit payments (note 22)	(368)	(175)
Movements in variation margin and collateral	481	56
Interest received	2	7
Sale and settlement of securities	(3)	121
	1,286	694
Net cash flow from continuing operating activities	1,611	957
Net cash flow used in continuing investing activities	(325)	(263)
Total cash flow from continuing operating and investing activities	1,286	694

(i) Segmental results have been restated to reflect the new operating structure of the Group. See note 1 for further details.
(ii) The Other segment includes corporate functions.

5. Costs

This section details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	2021 Cost of sales and settlement of certain energy contracts £m	2021 Operating costs £m	2021 Total costs £m	2020 Cost of sales and settlement of certain energy contracts £m	2020 Operating costs £m	2020 Total costs £m
Transportation, distribution, capacity market and metering costs	**(3,702)**	**–**	**(3,702)**	(3,572)	–	(3,572)
Commodity costs [(i)]	**(9,302)**	**–**	**(9,302)**	(6,442)	–	(6,442)
Depreciation, amortisation, impairments and write-downs	**(497)**	**(302)**	**(799)**	(554)	(358)	(912)
Employee costs	**(464)**	**(749)**	**(1,213)**	(515)	(685)	(1,200)
Other direct costs [(i)]	**(1,465)**	**(652)**	**(2,117)**	(1,533)	(671)	(2,204)
Costs included within business performance before credit losses on financial assets	**(15,430)**	**(1,703)**	**(17,133)**	(12,616)	(1,714)	(14,330)
Credit losses on financial assets (net of recovered amounts) (note 17)	**–**	**(116)**	**(116)**	–	(195)	(195)
Total costs included within business performance	**(15,430)**	**(1,819)**	**(17,249)**	(12,616)	(1,909)	(14,525)
Adjustment for gross cost of settled energy contracts in the scope of IFRS 9 and onerous energy supply contract provision (note 7)	**2,749**	**–**	**2,749**	4,118	–	4,118
Exceptional items and re-measurement and settlement of derivative energy contracts (note 7)	**(434)**	**1,247**	**813**	(632)	(1,593)	(2,225)
Total costs within Group operating profit	**(13,115)**	**(572)**	**(13,687)**	(9,130)	(3,502)	(12,632)

(i) Commodity costs include a credit of £182m recoverable under the Last Resort Supplier Payment claim, a further credit of £3m is included in other direct operating costs. These credits offset costs incurred as a result of the Group's appointment as Supplier of Last Resort to customers of energy suppliers who ceased trading during the year. See notes 1 and 3.

(b) Employee costs

The below employee costs exclude the costs of redundancy and similar termination benefits.

Year ended 31 December	2021 Continuing operations £m	2021 Discontinued operations £m	2021 Total £m	2020 Continuing operations £m	2020 Discontinued operations £m	2020 Total £m
Wages and salaries	**(965)**	**–**	**(965)**	(979)	(246)	(1,225)
Social security costs	**(104)**	**–**	**(104)**	(108)	(21)	(129)
Pension and other post-employment benefits costs	**(166)**	**–**	**(166)**	(171)	–	(171)
Share scheme costs (note S4)	**(12)**	**–**	**(12)**	(34)	(18)	(52)
	(1,247)	**–**	**(1,247)**	(1,292)	(285)	(1,577)
Capitalised employee costs	**19**	**–**	**19**	32	3	35
Employee costs included in exceptional items	**15**	**–**	**15**	33	–	33
Cost recovery via Coronavirus government support programmes	**–**	**–**	**–**	27	–	27
Employee costs recognised in business performance in the Group Income Statement	**(1,213)**	**–**	**(1,213)**	(1,200)	(282)	(1,482)

5. Costs

(c) Average number of employees during the year

Year ended 31 December	2021 Number	2020 Number
British Gas Services & Solutions	**12,178**	13,605
British Gas Energy	**3,006**	3,483
Energy Marketing & Trading	**478**	361
Centrica Business Solutions	**1,706**	2,295
Bord Gáis Energy	**323**	281
Upstream	**863**	912
Group Functions	**1,150**	2,183
Direct Energy	**–**	2,633
	19,704	25,753

6. Share of results of joint ventures and associates

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2021 principally arises from its interest in Nuclear – Lake Acquisitions Limited, an associate, reported in the Upstream segment.

	2021			2020		
Year ended 31 December	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the year £m	Share of business performance £m	Share of exceptional items and certain re-measurements £m	Share of results for the year £m
Income	**334**	**–**	**334**	557	–	557
Expenses before exceptional items and re-measurement of certain contracts	**(459)**	**–**	**(459)**	(501)	–	(501)
Exceptional items and re-measurement of certain contracts	**–**	**–**	**–**	–	(2)	(2)
Operating (loss)/profit	**(125)**	**–**	**(125)**	56	(2)	54
Financing income/(cost)	**1**	**–**	**1**	(8)	–	(8)
Taxation on (loss)/profit	**21**	**–**	**21**	(25)	–	(25)
Share of post-taxation results of joint ventures and associates	**(103)**	**–**	**(103)**	23	(2)	21

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

7. Exceptional items and certain re-measurements

(a) Certain re-measurements

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

In the current year, as a result of the significant market price increases and the consequent gains recognised on energy contracts entered into to meet the future needs of our customers, an onerous supply contract provision has also been recognised in certain re-measurements related to downstream demand.

Year ended 31 December	2021 £m	2020 £m
Certain re-measurements recognised in relation to energy contracts:		
Net (losses)/gains arising on delivery of contracts	(259)	520
Net gains arising on market price movements and new contracts	1,548	266
Net re-measurements included within gross profit before onerous supply contract provision	1,289	786
Onerous energy supply contract provision (i)	(2,530)	–
Net re-measurements included within gross profit	(1,241)	786
Net losses arising on re-measurement of certain associates' contracts (net of taxation)	–	(2)
Net re-measurements included within Group operating profit	(1,241)	784
Taxation on certain re-measurements (note 9) (ii)	486	(86)
Net re-measurements after taxation for continuing operations	(755)	698
Discontinued operations		
Net re-measurements from discontinued operations before taxation	–	184
Taxation on certain re-measurements in discontinued operations	–	(46)
Net re-measurements after taxation from discontinued operations	–	138
Total certain re-measurements	(755)	836

(i) The onerous supply contract provision represents the future costs to fulfil customer contracts on a current market price basis. The associated hedging gains are separately recognised within the gains arising on market price movements and new contracts.
(ii) Taxation on onerous energy supply contracts amounted to a £481 million credit (2020: £nil) and taxation on other certain re-measurements amounted to £5 million (2020: £(86) million).

Year ended 31 December	2021 £m	2020 £m
Total re-measurement and settlement of derivative energy contracts excluding:	(434)	(632)
IFRS 9 business performance revenue	(3,556)	(2,700)
IFRS 9 business performance cost of sales	5,279	4,118
Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit	1,289	786
Onerous contract provision (cost of sales)	(2,530)	–
Total certain re-measurements	(1,241)	786

The table below reflects the certain re-measurement derivative movements by business segment:

Year ended 31 December	2021 £m	2020 £m
UK Energy Supply (British Gas Energy and Centrica Business Solutions)	3,917	1,382
Upstream/Energy Marketing & Trading/Bord Gáis	(2,628)	(596)
Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit	1,289	786

7. Exceptional items and certain re-measurements

(b) Exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, pension change costs or credits, significant debt repurchase costs and asset write-downs/impairments and write-backs.

Year ended 31 December	2021 £m	2020 £m
Exceptional items recognised in continuing operations		
Impairment of E&P Norway disposal group assets (including disposal related costs) and related asset write-downs (i)	**(244)**	–
Write-back/(impairment) of other exploration and production assets (including completed field disposals) (ii)	**838**	(644)
Write-back/(Impairment) of power assets (iii)	**747**	(525)
Impairment of Centrica Business Solutions (iv)	**(123)**	(78)
Impairment of Centrica Home Solutions	**–**	(72)
Fair value uplift on minority investment prior to transfer to asset held for sale (v)	**15**	–
Restructuring credit/(cost) (vi)	**14**	(274)
Exceptional items included within Group operating profit (vii)	**1,247**	(1,593)
Net taxation on exceptional items (note 9)	**(250)**	273
Net exceptional items recognised in continuing operations after taxation	**997**	(1,320)
Net exceptional items recognised in discontinued operations after taxation	**624**	(36)
Total exceptional items recognised after taxation	**1,621**	(1,356)
Exceptional items recognised in discontinued operations		
Profit on disposal of Direct Energy (including disposal related costs) (viii)	**613**	(29)
Restructuring credit	**–**	7
Exceptional items before taxation	**613**	(22)
Net taxation on exceptional items (ix)	**11**	(14)
Net exceptional items recognised in discontinued operations after taxation	**624**	(36)

(i) In the Upstream segment, the proposed divestment of the exploration and production Norwegian and Statfjord field disposal group (see note 12), and the consequent strategic decision to focus the remaining Spirit Energy business on its retained producing fields rather than exploration and evaluation, gave rise to a goodwill impairment of £198 million (post-tax £198 million) and the write-off of the remaining exploration and evaluation assets of £33 million (post-tax £20 million), together with a related onerous provision for exploration spend of £4 million (post-tax £2 million). Also included within this exceptional item is £9 million (post-tax £9 million) of costs incurred during the year for professional assistance related to the divestment.

(ii) In the Upstream segment, net impairment write-backs of exploration and production assets have been booked relating to the value of certain UK, Netherlands and Norwegian gas and oil fields. This amounted to £829 million (post-tax £476 million) and was predominantly due to the increase in near-term liquid commodity prices. Also included is the net reduction in decommissioning provisions (pre-tax £40 million, post-tax £24 million) related to assets previously impaired through exceptional items. Separately, in the taxation line, a credit of £101 million has been recorded associated with deferred tax positions related to exploration and production tax losses and decommissioning carry-back, due to the increase in forecast prices. The partial disposal of the Pegasus field and an update to the prior year Danish gas and oil asset disposal amounted to a loss on disposal (including related asset impairments) of £31 million (post-tax £22 million).

(iii) In the Upstream segment, an impairment write-back of the nuclear investment of £747 million (post-tax £747 million) has been recorded predominantly as a result of an increase in near-term liquid commodity prices, partially offset by reduced output assumptions, following generation issues at a number of stations during the year.

(iv) The Centrica Business Solutions energy solutions cash generating unit (i.e. excluding energy supply) fully impaired its goodwill by £103 million (post-tax £103 million), as well as impairing specific assets of £20 million (post-tax £20 million) following strategic changes, and revised growth forecasts.

(v) A minority investment made by the former Centrica Innovations business unit in Driivz (an electric vehicle charging software provider), previously reflected in Securities and accounted for as fair value through profit and loss, is subject to a signed disposal agreement at the year-end. As a result, the fair value of the investment has been uplifted (post-tax £12 million) to equal the expected disposal proceeds and the investment reclassified to Assets Held for Sale.

(vi) The net restructuring credit relates to the reversal of a prior year provision predominantly related to pension strain estimates, partially offset by property impairments and other run-off costs from the Group's restructuring programme (post-tax £11 million) which is not expected to recur. The Group's restructuring programme is now substantially complete and therefore we do not expect to recognise any further exceptional restructuring costs/credits in relation to this programme.

(vii) Continuing operation exceptional items for 2021 are all non-cash, with the exception of disposal costs associated with the Norwegian and Statfjord field divestment and legacy project restructuring costs. The cashflows related to exceptional items of £76 million in the Group Cashflow statement relate to these items, together with cashflows associated with previous year exceptional restructuring costs.

(viii) The disposal of Direct Energy completed on 5 January 2021. See note 12 for further details.

(ix) Taxation on exceptional items in discontinued operations predominantly relates to the release of an uncertain tax provision associated with North American transfer pricing.

7. Exceptional items and certain re-measurements

(c) Impairment accounting policy, process and sensitivities

The information provided below relates to the assets and CGUs (or groups of CGUs) that have been subject to impairment write-backs during the year.

Exceptional (impairments)/write-back of assets measured on a FVLCD basis

Segment	Asset/CGU (or group of CGUs)	Basis for (impairment)/write-back	Recoverable amount (i) £m	FV hierarchy	(Impairment)/ Write-back £m
Upstream	Goodwill	Allocation to E&P Norway disposal group and re-measurement prior to reclassification to Assets held for sale	–	L3	(198)
	Exploration and Evaluation assets	Decision to scale back exploration and development activities	–	L3	(33)
	UK and Netherlands fields (ii)	Increase in liquid commodity prices	817	L3	771
	Norwegian fields (iii)	Increase in liquid commodity prices in H1	N/A	L3	58
Centrica Business Solutions	Energy solutions CGU – Goodwill	Strategic changes and revised growth forecasts	–	L3	(103)
	Energy solutions CGU – Intangible assets/PPE	Strategic changes and revised growth forecasts impacting certain asset values	–	L3	(20)
Other	Property	Reduction in forecast sub-lease potential	–	L3	(8)

(i) Recoverable amounts include the impact of decommissioning and tax when related to Upstream assets. For fully written off assets (including Goodwill), the recoverable amount is stated as £nil.
(ii) Relates to 8 individual fields or cash-generating units that were subject to impairment/write-back. Recoverable amount disclosed relates to those 8 fields.
(iii) The Norwegian field write-back was recognised in the Interim accounts but the field is now part of the Norwegian and Statfjord disposal group (see note 12) and therefore no separate recoverable amount has been disclosed.

Fair value less costs of disposal (FVLCD) is determined by discounting the post-tax cash flows expected to be generated by the assets or CGU, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows used in the FVLCD calculation are based on the Group's Board-approved business plans and strategic shape assumptions, together with, where relevant, long-term production and cash flow forecasts.

Upstream gas and oil assets

For Upstream gas and oil assets post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (i.e. outside the active period for each commodity), prices are determined based on the median of third-party market comparator curves. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Price assumptions are critical and use liquid market prices for 2022 to 2025, blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10.0% (2020: 10.0%).

As forward commodity prices are a key assumption in these valuations, average prices and associated impairment sensitivities for the Group's upstream gas and oil assets (including Goodwill) for the relevant periods are shown below. Note that following the reclassification of the exploration and production Norwegian and Stratfjord field disposal group into Assets and Liabilities held for sale (see note 12), the below sensitivities for 2021 do not include these assets.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in post-tax write-back/(impairment) (ii) (iii)			
					+10%		-10%	
	2022-2026	2021-2025	2027-2036	2026-2035				
	2021	2020	**2021**	2020	**2021 £m**	2020 £m	**2021 £m**	2020 £m
NBP (p/th)	**83**	40	**44**	47	**8**	289	**(7)**	(266)
Brent ($/bbl)	**64**	47	**63**	68				
							-50% Five-year liquid and blended-period only	
							(340)	

(i) Prices are shown in 2020 real terms.
(ii) Sensitivity relates to Upstream exploration and production assets and CGUs. A 10% change was historically deemed to represent a reasonably possible variation across the entire period covered by both the liquid market and longer-term comparator curves used in upstream gas and oil impairment tests. Given the increases in commodity prices during 2021, a further sensitivity has been included based on a 50% fall in liquid and blend-period commodity prices only. The changes shown relate to further write-backs or impairments and are restricted because the most material fields have already been written back to their depreciated historic cost and have excess impairment headroom. The post-tax NPV movements of the fields in +/-10% scenario are £235 million/£(232) million and in the -50% liquid price period scenario are £(1,099) million.
(iii) In the -10% scenario, the 31 December 2020 sensitivity includes £199 million of goodwill.

7. Exceptional items and certain re-measurements

Furthermore, there is also uncertainty due to climate change and international governmental intervention to reduce CO2 emissions and the likely impact this will have on both gas and oil demand and forecast prices. As a result, a further sensitivity is disclosed below based on forecast prices aligned to the International Energy Agency's ('IEA') Net Zero Emissions by 2050, which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. This sensitivity retains the prices for the liquid period (4 years) but replaces the longer term thereafter with the IEA's forecast prices for Net Zero Emissions by 2050.

	Ten-year long-term average price (i)	Change in post-tax write-back/ (impairment) (ii)
	2027-2036	
	2021	£m
NBP (p/th)	36	(2)
Brent ($/bbl)	45	

(i) Prices shown in 2020 real terms.

(ii) Change in impairment restricted due to the most material fields having already been written back to their depreciated historic cost and having excess impairment headroom. The post-tax NPV movements of the fields is £(28) million.

Centrica Business Solutions Energy solutions CGU

A FVLCD calculation has been used to assess the recoverable amount of Centrica Business Solutions Energy solutions CGU (i.e. excluding energy supply) following an internal review of the business resulting in certain strategic changes and revised growth forecasts. Cashflows have been projected over a 5-year period for each region and a terminal value has been applied to the 2026 cashflows using a growth rate in the range 1.5-3.0% which is jurisdictional and product specific. The future post-tax cashflows are predominantly discounted using a post-tax nominal discount rate of 6.5% (2020: 7.5%). Were the cashflows used in the terminal value calculation reduced by 10%, a further impairment to Property, Plant and Equipment of £25 million would be required.

Goodwill in the Centrica Business Solutions Energy Supply CGU is not affected.

7. Exceptional items and certain re-measurements

Exceptional impairments/write-back assessments of assets measured on a VIU basis

Segment	Asset/CGU (or group of CGUs)	Basis for write-back assessment	Recoverable amount £m	Write-back £m
Upstream	Nuclear	Increase in short-term baseload power prices partially offset by a reduction in volumes following the closure of Dungeness and other generation issues	1,625	747

Nuclear

A VIU calculation has been used to determine the recoverable amount of the Group's investment in Nuclear. The cash flows incorporated in the valuation are based on detailed business forecasts in the short term, extrapolated to future years to account for the expected generation profile of the fleet for its remaining life. Assumptions include forward commodity prices, capacity rates, fuel and network costs, operating and capital expenditure requirements. Price assumptions are based on liquid market prices for 2022 to 2025 which are then blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are used due to alignment with pricing that a reasonable market participant would use.

The VIU calculation assumes that the Sizewell plant operates until 2055, reflecting a 20-year extension beyond its original design life. In the absence of this extension, the carrying value of the Group's investment in Nuclear would be reduced by £142 million.

The VIU calculation is also sensitive to changes in outage assumptions, and the base level generation volumes assumed for the fleet were reduced during the period based on a review of outage levels in recent years. A further movement of 5% in the unplanned outage rate applied to volumes across the nuclear fleet would lead to a write-back movement of £170 million.

The future pre-tax cash flows generated by the investment in the associate are discounted using a pre-tax nominal discount rate 14.7% (2020: 8.0%). This equated to a post-tax rate of 5.75% (2020: 6.5%). The post-tax discount rate is initially derived from the Group weighted average cost of capital as adjusted for the risks associated with the asset and with reference to comparator companies. The pre-tax rate is then back-calculated by removing tax cash flows and assessing the rate that would give the same result as the post-tax rate. Timing of cash flows has caused a significant increase in the pre-tax discount rate. A 1% increase in the post-tax discount rate would lead to a write-back reduction of £54 million. A 1% reduction in the post-tax discount rate would lead to an increased write-back of £64 million.

The asset is particularly sensitive to changes in commodity price and the table below details average prices for the relevant periods and associated sensitivities.

	Five-year liquid and blended-period price (i)		Ten-year long-term average price (i)		Change in pre/post-tax write-back/(impairment) (ii)			
					+10%		-10%	
	2022-2026	2021-2025	2027-2036	2026-2035				
	31 December 2021 £/MWh	31 December 2020 £/MWh	**31 December 2021 £/MWh**	31 December 2020 £/MWh	**31 December 2021 £m**	31 December 2020 £m	**31 December 2021 £m**	31 December 2020 £m
Baseload power	**93**	48	**49**	53	**319**	295	**(317)**	(293)
							-50% Five-year liquid and blended-period only	
							(1,073)	

(i) Prices are shown in 2020 real terms.
(ii) A 10% change was historically deemed to represent a reasonably possible variation across the entire period covered by the liquid market and comparator curves used in the nuclear impairment test. Given the increases in commodity prices during 2021, a further sensitivity has been included based on a 50% fall in liquid and blend-period commodity prices only.

Note that due to current forecast baseload prices being higher in the near-term, coupled with the requirement for the nuclear fleet depreciation to be calculated on a production/time basis rather than economic value, there is a higher likelihood of impairment being required in 2022 as these items outturn.

Furthermore, there is also uncertainty due to climate change and international governmental intervention to reduce CO2 emissions and the likely impact this will have on both power demand and forecast prices. As a result, a further sensitivity is disclosed below based on forecast prices aligned to Aurora's Net Zero price curve, which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. This sensitivity retains the prices for the liquid period (4 years) but replaces the longer term thereafter with Aurora's forecast prices for Net Zero.

	Ten-year long-term average price (i)	Change in post-tax write-back (ii)
	2027-2036	
	2021	£m
Baseload power (£/MWh)	**64**	**119**

(i) Prices shown in 2020 real terms.
(ii) Change would lead to a further write-back in the carrying value.

8. Net finance cost

Financing costs mainly comprise interest on bonds and bank debt, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings and notional interest arising from the discounting of decommissioning provisions and pensions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received from short-term investments in money market funds, bank deposits and government bonds.

Continuing operations

Year ended 31 December	2021 Financing costs £m	2021 Investment income £m	2021 Total £m	2020 Financing costs £m	2020 Investment income £m	2020 Total £m
Cost of servicing net debt:						
Interest income	–	5	5	–	7	7
Interest cost on bonds, bank loans and overdrafts	(191)	–	(191)	(206)	–	(206)
Interest cost on lease liabilities	(6)	–	(6)	(10)	–	(10)
	(197)	5	(192)	(216)	7	(209)
Net gains on revaluation	–	4	4	–	4	4
Notional interest arising from discounting	(7)	–	(7)	(23)	–	(23)
	(204)	9	(195)	(239)	11	(228)
Capitalised borrowing costs [(i)]	8	–	8	13	–	13
Financing (cost)/income	**(196)**	**9**	**(187)**	(226)	11	(215)

(i) Borrowing costs have been capitalised using an average rate of 4.49% (2020: 4.47%).

Financial Statements

9. Taxation

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits together with amendments in respect of tax provisions made in earlier years. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

(a) Analysis of tax charge

	2021			2020		
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Continuing operations:						
Current tax						
UK corporation tax	**(7)**	**(80)**	**(87)**	(12)	7	(5)
UK petroleum revenue tax	**24**	**–**	**24**	71	–	71
Non-UK tax	**(386)**	**(21)**	**(407)**	47	(7)	40
Adjustments in respect of prior years – UK	**(1)**	**18**	**17**	42	8	50
Adjustments in respect of prior years – non-UK	**6**	**–**	**6**	7	–	7
Total current tax	**(364)**	**(83)**	**(447)**	155	8	163
Deferred tax						
Origination and reversal of temporary differences – UK	**(63)**	**520**	**457**	(38)	102	64
UK petroleum revenue tax	**(9)**	**(129)**	**(138)**	(22)	1	(21)
Origination and reversal of temporary differences – non-UK	**(63)**	**(45)**	**(108)**	(38)	77	39
Change in UK tax rate	**6**	**(9)**	**(3)**	(28)	8	(20)
Adjustments in respect of prior years – UK	**36**	**(18)**	**18**	(52)	(9)	(61)
Adjustments in respect of prior years – non-UK	**3**	**–**	**3**	(19)	–	(19)
Total deferred tax	**(90)**	**319**	**229**	(197)	179	(18)
Total taxation on profit/(loss) from continuing operations (i)	**(454)**	**236**	**(218)**	(42)	187	145
Discontinued operations:						
Current tax – non-UK	**–**	**11**	**11**	(23)	6	(17)
Deferred tax – origination and reversal of temporary differences – non-UK	**–**	**–**	**–**	(10)	(66)	(76)
Total taxation on profit from discontinued operations	**–**	**11**	**11**	(33)	(60)	(93)
Total taxation on profit/(loss) for the year	**(454)**	**247**	**(207)**	(75)	127	52

(i) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

UK tax rates

Most activities in the UK are subject to the standard rate for UK corporation tax of 19% (2020: 19%). Upstream gas and oil production activities are taxed at a rate of 30% (2020: 30%) plus a supplementary charge of 10% (2020: 10%) to give an overall rate of 40% (2020: 40%). Certain upstream assets in the UK under the petroleum revenue tax (PRT) regime have a current rate of 0% (2020: 0%).

The UK corporation tax rate will increase to 25% with effect from 1 April 2023. At 31 December 2021, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were based on the increased rate having regard to their reversal profiles.

Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 22% (2020: 22%) plus a special tax of 56% (2020: 56%) resulting in an aggregate tax rate of 78% (2020: 78%).

Taxation in other jurisdictions, where the Group has a substantial presence, is calculated at the rate prevailing in those respective jurisdictions. Jurisdictions and rates include the Republic of Ireland 12.5%, Denmark 22% and the US 21%. The tax charges were not material in such jurisdictions.

Prior year adjustments reflect changes made to estimates or to judgements when further information becomes available.

Movements in deferred tax liabilities and assets are disclosed in note 16. Tax on items taken directly to equity is disclosed in note S4.

9. Taxation

(b) Factors affecting the tax charge

The Group is expected to continue carrying out most of its business activities in the UK and accordingly considers the standard UK rate to be the appropriate reference rate.

The differences between the total taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before taxation are as follows:

	2021			2020		
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit/(loss) before taxation from continuing operations	761	6	767	232	(809)	(577)
Add back/(deduct) share of losses/(profits) of joint ventures and associates, net of interest and taxation	103	–	103	(23)	2	(21)
	864	6	870	209	(807)	(598)
Tax on profit/(loss) at standard UK corporation tax rate of 19% (2020: 19%)	(164)	(1)	(165)	(40)	153	113
Effects of:						
Depreciation/impairment on non-qualifying assets	(20)	39	19	(20)	(100)	(120)
Higher rates applicable to Upstream profits/losses	(347)	98	(249)	(28)	203	175
Non-UK tax rates	(14)	8	(6)	12	17	29
Upstream investment incentives	30	–	30	39	–	39
Movements in uncertain tax provisions	1	–	1	12	–	12
Changes in UK tax rate	6	(9)	(3)	(28)	8	(20)
Impairment/(write-back) of deferred tax assets relating to Upstream losses and decommissioning	(8)	178	170	(10)	(79)	(89)
Petroleum revenue tax	11	(77)	(66)	40	2	42
Prior year adjustment (i)	44	–	44	(22)	(1)	(23)
Other	7	–	7	3	(16)	(13)
Taxation on profit/(loss) from continuing operations	(454)	236	(218)	(42)	187	145
Less: movement in deferred tax	90	(319)	(229)	197	(179)	18
Total current tax from continuing operations	(364)	(83)	(447)	155	8	163
Current tax from discontinued operations	–	11	11	(23)	6	(17)
Total current tax on profit/(loss) for the year	(364)	(72)	(436)	132	14	146

(i) The 2021 prior year adjustment includes £30m relating to the adjustment of deferred tax balances to reflect the higher rate of tax at which decommissioning liabilities are expected to be recovered.

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved. Resolution of these differences typically takes many years. The uncertain tax provisions represent multiple layers of estimation for different time periods and different jurisdictions.

The Group has applied IFRIC 23: 'Uncertainty over income tax treatments'. The interpretation requires consideration of the likelihood that the relevant taxing authority will accept an uncertain tax treatment in order to determine the measurement basis. The value is calculated in accordance with the rules of the relevant tax authority when acceptance is deemed probable.

The principal element of the Group's uncertain tax position relates to transfer pricing challenges in jurisdictions outside the UK. While the Group applies the arm's length principle to all intra-group transactions, taking OECD guidance into account, taxing authorities may take different views. The outcome of resolving any disputes is not predictable and therefore in order to reflect the effect of uncertainties, the provisions represent management's assessment of the most likely outcome of each issue. The assessment is reviewed and updated on a regular basis. At 31 December 2021, the Group held uncertain tax provisions of £157 million (2020: £180 million), of which £116 million is included in the disposal group held for sale.

9. Taxation

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes. Losses arising in one territory cannot be offset against profits in another.

Profits from gas and oil production in the UK continue to be taxed at rates above the UK statutory rate (40% versus 19%). PRT is now set at 0% but may still give rise to historic refunds from the carry-back of excess reliefs (for example, from decommissioning).

Following the disposal of the Group's Norwegian fields and the UK Statfjord field, it is expected that the Group effective tax rate will reduce. The effective tax rate is dependent on the proportion of Group profits and losses arising from its remaining UK Upstream activities relative to lower taxed UK and other jurisdictions profits and losses.

Globally, continuing tax reform has significant potential to change tax charges, particularly in relation to the OECD's Base Erosion and Profit Shifting (BEPS) project, including the recent proposals for a minimum corporate tax rate of 15%. The Group does not expect its tax position to be impacted materially.

(d) Relationship between current tax charge and taxes paid

	2021			2020		
Year ended 31 December	UK £m	Non-UK £m	**Total £m**	UK £m	Non-UK £m	Total £m
Current tax charge/(credit): (continuing and discontinuing activities)						
Corporation tax	70	390	**460**	(45)	(30)	(75)
Petroleum revenue tax	(24)	–	**(24)**	(71)	–	(71)
Total tax on results for the year per note 9(b)	**46**	**390**	436	(116)	(30)	(146)
Current tax included in Other comprehensive income [(i)]	(16)	–	**(16)**	–	–	–
Total tax charge/(credit)	30	390	**420**	(116)	(30)	(146)
Taxes paid/(refunded):						
Corporation tax	113	85	**198**	1	62	63
Petroleum revenue tax	(49)	–	**(49)**	(36)	–	(36)
	64	**85**	**149**	(35)	62	27
Included in the following lines of the Group Cash Flow Statement:						
Taxes paid in net cash flows from continuing operating activities			**140**			2
Net cash flow from discontinued operating activities			**–**			25
Net cash inflow from discontinued investing activities			**9**			–

(i) Current tax movements relating to pension deficit payments are reported in other comprehensive income. See note 1 for further details.

Differences between current tax charged and taxes paid arose principally due to the following factors:

- Corporation tax payments are generally made by instalment, based on estimated taxable profits, or the prior period's profits. Payments are made on account and the final liability is settled as the tax return is filed. Fluctuations in profits from year to year, one-off items and mark-to-market movements within the year may therefore give rise to divergence between the charge for the year and the taxes paid. In certain jurisdictions advance tax payments are required (based on estimated tax liabilities) which can result in overpayments. These are included as tax assets, to be refunded in a subsequent period; and
- PRT refunds are based on results in the preceding six-monthly PRT period, therefore PRT cash movements will reflect refunds on a six-month delay.

10. Earnings per ordinary share

Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options.

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £1,210 million (2020: £41 million) by the weighted average number of ordinary shares in issue during the year of 5,836 million (2020: 5,825 million). The number of shares excludes 35 million ordinary shares (2020: 11 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items, assists with understanding the underlying performance of the Group, as explained in note 2.

Information presented for diluted and adjusted diluted earnings per ordinary share uses the weighted average number of shares as adjusted for 69 million (2020: 91 million) potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

Continuing and discontinued operations

Year ended 31 December	2021 £m	2021 Pence per ordinary share	2020 £m	2020 Pence per ordinary share
Earnings – basic	1,210	20.7	41	0.7
Net exceptional items after taxation (notes 2 and 7) (i)	(1,521)	(26.0)	1,220	21.0
Certain re-measurement losses/(gains) after taxation (notes 2 and 7) (i)	548	9.4	(883)	(15.2)
Earnings – adjusted basic	237	4.1	378	6.5
Earnings – diluted	1,210	20.5	41	0.7
Earnings – adjusted diluted	237	4.0	378	6.4

Continuing operations

Year ended 31 December	2021 £m	2021 Pence per ordinary share	2020 £m	2020 Pence per ordinary share
Earnings – basic	586	10.0	(274)	(4.7)
Net exceptional items after taxation (notes 2 and 7) (i)	(897)	(15.3)	1,184	20.3
Certain re-measurement losses/(gains) after taxation (notes 2 and 7) (i)	548	9.4	(745)	(12.8)
Earnings – adjusted basic	237	4.1	165	2.8
Earnings – diluted (ii)	586	9.9	(274)	(4.7)
Earnings – adjusted diluted	237	4.0	165	2.8

Discontinued operations

Year ended 31 December	2021 £m	2021 Pence per ordinary share	2020 £m	2020 Pence per ordinary share
Earnings – basic	624	10.7	315	5.4
Net exceptional items after taxation (notes 2 and 7)	(624)	(10.7)	36	0.7
Certain re-measurement gains after taxation (notes 2 and 7)	–	–	(138)	(2.4)
Earnings – adjusted basic	–	–	213	3.7
Earnings – diluted	624	10.6	315	5.3
Earnings – adjusted diluted	–	–	213	3.6

(i) Net exceptional items after taxation and certain re-measurement losses/(gains) after taxation are adjusted to reflect the share attributable to non-controlling interests.
(ii) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share.

11. Dividends

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	2021			2020		
	£m	Pence per share	Date of payment	£m	Pence per share	Date of payment
Prior year final dividend	–	–	–	–	–	–
Interim dividend	–	–	–	–	–	–
	–	–	–	–	–	–

On 2 April 2020 the Directors announced that the Board had taken the decision to cancel the 2019 final dividend payment of 3.5p per share, or £204 million, which was due to be paid in June 2020. The Directors did not propose the payment of an interim or final dividend for 2021.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. Refer to the Centrica plc Company Balance Sheet on page 212. At 31 December 2021, Centrica plc's company-only distributable reserves were c.£2.5 billion (2020: c.£1.5 billion). On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Centrica plc as appropriate to replenish its reserves.

12. Acquisitions, disposals and disposal groups classified as held for sale

(a) Business combinations and asset acquisitions

During the year, the Group have been appointed by Ofgem as the Supplier of Last Resort for eight energy companies who have ceased trading. These have not been accounted for as business combinations or asset acquisitions as the incremental costs associated with supplying the affected customers will be recoverable through the established Last Resort Supplier Payment (LRSP) claim mechanism under Ofgem supplier licence conditions. A customer intangible asset of £10 million has been recognised in 2021 in respect of certain customer credit balances that the Group did not include in their LRSP claims.

There have been no material acquisitions during the period. No material measurement period adjustments have been made to acquisitions completed in prior periods.

(b) Disposals and discontinued operations

On 24 July 2020, the Group announced that it had agreed to sell its North American energy supply, services and trading business, Direct Energy, to NRG Energy Inc, for $3.6 billion in cash on a debt free, cash free basis. The transaction received all necessary approvals prior to 31 December 2020 and completed on 5 January 2021. The working capital adjustment has been finalised and led to a further receipt of $22 million in December 2021.

Details of the assets and liabilities of the disposal group at 5 January 2021 are shown below.

	Direct Energy £m
Non-current assets	
Property, plant and equipment	82
Other intangible assets	228
Goodwill	1,490
Deferred tax assets	342
Derivative financial instruments	93
Other non-current financial assets	14
	2,249
Current assets	
Trade and other receivables, and contract-related assets	1,543
Inventories	79
Derivative financial instruments	67
Current tax assets	79
Cash and cash equivalents	132
	1,900
Assets of disposal groups classified as held for sale	**4,149**
Current liabilities	
Derivative financial instruments	(181)
Trade and other payables, and contract-related liabilities	(1,236)
Current tax liabilities	(20)
Provisions for other liabilities and charges	(21)
Lease liabilities	(12)
	(1,470)
Non-current liabilities	
Deferred tax liabilities	(404)
Derivative financial instruments	(59)
Provisions for other liabilities and charges	(12)
Retirement benefit obligations	(21)
Lease liabilities	(24)
	(520)
Liabilities of disposal groups classified as held for sale	**(1,990)**
Net assets of disposal groups classified as held for sale	**2,159**
Consideration received (net of transaction costs of £31 million) [i]	**2,703**
Recycling of foreign currency translation and net investment hedge reserves on disposal	**69**
Gain on disposal before taxation	**613**

(i) The net cash inflow from the disposal of Direct Energy of £2,588 million reported in the Group Cash Flow Statement is stated net of cash disposed of £132 million and hedging receipts net of tax £17 million

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12. Acquisitions, disposals and disposal groups classified as held for sale

The results of the Direct Energy business for 2021 and 2020 are as follows:

Year ended 31 December	2021 Business performance £m	2021 Exceptional items and certain re-measurements £m	2021 Results for the year £m	2020 Business performance £m	2020 Exceptional items and certain re-measurements £m	2020 Results for the year £m
Revenue	–	–	–	9,483	(912)	8,571
Cost of sales	–	–	–	(8,621)	1,495	(7,126)
Re-measurement and settlement of energy contracts	–	–	–	–	(399)	(399)
Gross profit	–	–	–	862	184	1,046
Operating costs	–	613	613	(610)	(22)	(632)
Operating profit	–	613	613	252	162	414
Finance costs	–	–	–	(6)	–	(6)
Profit before taxation	–	613	613	246	162	408
Taxation on profit (i)	–	11	11	(33)	(60)	(93)
Profit from discontinued operations, net of tax	–	624	624	213	102	315

(i) During 2020 a historic Canadian exploration and production deferred tax asset was written off. The associated charge of £20 million is included as an exceptional item within discontinued operations. See note 7 for further details.

Because the disposal group represents a separate major line of business and geographical operations, its results have been presented as discontinued operations in the Group Income Statement, Group Statement of Other Comprehensive Income and Group Cash Flow Statement.

Set out below are the cash flows arising from discontinued operations, which have been presented net within the Group Cash Flow Statement.

Year ended 31 December	2021 £m	2020 £m
Group operating profit including share of results of joint ventures and associates	–	414
Add back/(deduct):		
Depreciation, amortisation, write-downs, impairments and write-backs	–	57
Decrease in provisions	–	(4)
Employee share scheme costs	–	18
Unrealised gains arising from re-measurement of energy contracts	–	(100)
Exceptional charges reflected directly in operating profit	–	20
Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges	–	405
Decrease in inventories	–	17
Decrease in trade and other receivables and contract-related assets relating to business performance	–	139
Decrease in trade and other payables and contract-related liabilities relating to business performance	–	(81)
Operating cash flows before payments relating to taxes and exceptional charges	–	480
Taxes paid	–	(25)
Payments relating to exceptional charges in operating costs	–	(12)
Net cash flow from operating activities	–	443
Purchase of property, plant and equipment and intangible assets	–	(22)
Sale of businesses	2,588	–
Net cash flow from investing activities	2,588	(22)
Financing interest paid	–	(4)
Repayment of borrowings and capital element of leases	–	(12)
Net cash flow from financing activities	–	(16)
Net increase in cash and cash equivalents	2,588	405

Continuing operations disposals

On 31 July 2021 the Group sold its Peterborough site, which comprises freehold land, the 245MW Peterborough open cycle gas turbine (OCGT) and the 49MW reciprocating gas engine to Whitetower Holdings UK Limited, an affiliate of Rockland Capital, LP. The consideration amounted to £21 million and resulted in a £nil profit on disposal.

The Spirit Energy disposal of the Norway portfolio has resulted in an upfront payment of $50 million (£35 million). All other disposals undertaken by the Group were immaterial, both individually and in aggregate. The overall net cash inflow was £70 million, including the above.

12. Acquisitions, disposals and disposal groups classified as held for sale

(c) Assets and liabilities of disposal groups held for sale

On 8 December 2021 the Group announced that it had agreed to sell Spirit Energy's entire Norwegian portfolio excluding the Statfjord fields to Sval Energi for a headline consideration of $1,026 million (£758 million), and the Statfjord fields to Equinor for headline consideration of $50 million (£37 million). Further, deferred commodity price linked contingent payment will be payable post completion currently valued at £47 million.

The sales have a commercial effective date of 1 January 2021, and the consideration payable at closing will be reduced for the net cash flows generated by the sale business and interests since 1 January 2021. At 31 December 2021 net consideration receivable (including costs to dispose) has reduced to £574 million from Sval Energi, with a net consideration payable to Equinor of £(17) million. Further, upon completion a tax indemnity will be provided to Sval Energi, currently valued at £(116) million. Distribution of the net consideration and net cash flows generated will be pro-rata to the ownership share, with 31% attributable to the non-controlling interests. Completion is expected in the second quarter of 2022.

In applying IFRS 5: 'Non-current assets held for sale and discontinued operations', the Group has judged that there are two separate disposal groups being the Statfjord fields and the remainder of the Norwegian portfolio. The assets and liabilities comprising the disposal groups are to be classified as held for sale as at 8 December 2021. This is on the basis that at that point, the disposal groups were available for immediate sale, subject only to terms that are customary for sales of such assets, and the sale was highly probable.

The disposal groups do not represent a separate major line of business or geographical operations and hence the Group has concluded that they do not constitute discontinued operations.

Details of the assets and liabilities of the disposal groups at 31 December 2021 are shown below.

	Statfjord £m	Norway portfolio excluding Statfjord £m	Total £m
Non-current assets			
Property, plant and equipment	254	900	1,154
Other intangible assets	–	63	63
Goodwill (i)	19	191	210
Deferred tax assets (ii)	58	–	58
Other non-current financial assets	–	8	8
	331	1,162	1,493
Current assets			
Trade and other receivables, and contract-related assets	43	64	107
Inventories	18	15	33
Cash and cash equivalents	–	18	18
	61	97	158
Assets of disposal groups classified as held for sale	**392**	**1,259**	**1,651**
Current liabilities			
Trade and other payables, and contract-related liabilities	(45)	(94)	(139)
Current tax liabilities (iii)	–	(116)	(116)
Provisions for other liabilities and charges	(3)	(1)	(4)
Lease liabilities	–	(3)	(3)
	(48)	(214)	(262)
Non-current liabilities			
Deferred tax liabilities (ii)	146	(348)	(202)
Provisions for other liabilities and charges	(522)	(236)	(758)
Lease liabilities	–	(3)	(3)
	(376)	(587)	(963)
Liabilities of disposal groups classified as held for sale	**(424)**	**(801)**	**(1,225)**
Net (liabilities)/assets of disposal groups classified as held for sale	**(32)**	**458**	**426**

(i) The proposed divestment of the entire Norwegian portfolio, and attributing exploration and production goodwill of £408 million, has resulted in an impairment of £198 million, before transfer of the remaining balance of £210 million to assets of disposal groups classified as held for sale.

(ii) Deferred tax assets of £58 million represents tax attributable to Statfjord UK, part of a UK tax group. Deferred tax liabilities are categorised between Statfjord Norway, and the portfolio excluding Statfjord purely for presentational purposes. The net deferred tax liability being transferred to held for sale is £202 million.

(iii) Spirit Energy Norway is providing a tax indemnity, the potential liabilities under which Centrica has valued at £116 million, to be recognised upon completion as a provision for other liabilities and charges.

Included within the Group's foreign currency translation reserve is £270 million loss in respect of the disposal groups. These amounts have previously been recognised in the Group Statement of Comprehensive Income and will be recycled to the Group Income Statement on disposal.

Additionally, within the Other segment a minority investment made by the former Centrica Innovations business unit in Driivz (an electric vehicle charging software provider), previously reflected in Securities and accounted for as fair value through profit and loss, is subject to a signed disposal agreement at the year-end. As a result, the fair value of the investment has been included in assets held for sale, amounting to £21 million of assets and £3 million of associated tax liabilities.

13. Property, plant and equipment

PP&E includes significant investment in power stations and gas and liquid production assets. Once operational, all assets are depreciated over their useful lives.

(a) Carrying amounts

	2021					2020				
	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	**Total £m**	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	Total £m
Cost										
1 January	303	576	843	15,296	**17,018**	361	528	953	14,926	16,768
Additions and capitalised borrowing costs	3	42	53	237	**335**	4	242	16	274	536
Disposals/retirements	(28)	(37)	(687)	(7)	**(759)**	(7)	(36)	(124)	(133)	(300)
Transfers	–	–	–	10	**10**	–	–	–	3	3
Transfers to disposal groups held for sale	(11)	(6)	–	(4,017)	**(4,034)**	(39)	(152)	(6)	(120)	(317)
Decommissioning liability and dilapidations revisions and additions (note 21)	2	–	–	(12)	**(10)**	–	–	5	252	257
Lease modifications and re-measurements	(8)	1	–	(2)	**(9)**	(17)	8	–	–	(9)
Exchange adjustments	(2)	(1)	(4)	(166)	**(173)**	1	(14)	(1)	94	80
31 December	**259**	**575**	**205**	**11,339**	**12,378**	303	576	843	15,296	17,018
Accumulated depreciation and impairment										
1 January	113	257	707	13,298	**14,375**	90	279	762	12,504	13,635
Charge for the year	27	83	18	452	**580**	38	97	29	508	672
Impairments/(write-backs)	8	1	8	(829)	**(812)**	8	8	23	443	482
Disposals/retirements	(9)	(23)	(666)	(5)	**(703)**	(7)	(30)	(102)	(133)	(272)
Transfers to disposal groups held for sale	(5)	(6)	–	(2,903)	**(2,914)**	(16)	(97)	(5)	(116)	(234)
Exchange adjustments	(3)	17	(4)	(143)	**(133)**	–	–	–	92	92
31 December	**131**	**329**	**63**	**9,870**	**10,393**	113	257	707	13,298	14,375
NBV at 31 December	**128**	**246**	**142**	**1,469**	**1,985**	190	319	136	1,998	2,643

(b) Assets in the course of construction included in above carrying amounts

31 December	**2021 £m**	2020 £m
Plant, equipment and vehicles	**8**	10
Gas production and storage	**26**	232
Power generation	**11**	7

(c) Additional information relating to right-of-use assets included in the above

	2021					2020				
	Land and buildings £m	**Plant, equipment and vehicles £m**	**Power generation £m**	**Gas production and storage £m**	**Total £m**	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	Total £m
Additions	**3**	**31**	**–**	**6**	**40**	4	234	–	10	248
Depreciation charge for the year	**(25)**	**(62)**	**(8)**	**(21)**	**(116)**	(37)	(55)	(11)	(21)	(124)
NBV at 31 December [(i)]	**106**	**208**	**–**	**28**	**342**	145	239	8	47	439

(i) In 2021 £5 million (2020: £36 million) of transfers to held for sale have taken place, in addition to other movements relating to right-of-use assets not disclosed individually.

Further information on the Group's leasing arrangements is provided in note 23.

14. Interests in joint ventures and associates

Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include the investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear power station fleet.

(a) Interests in joint ventures and associates

	2021 Investments in joint ventures and associates £m	2020 Investments in joint ventures and associates £m
1 January	**843**	1,306
Additions	**–**	10
Write-backs/(Impairment) (i)	**747**	(483)
Share of (loss)/profit for the year	**(103)**	21
Share of other comprehensive income	**152**	58
Dividends (ii)	**(2)**	(72)
Disposals (iii)	**(2)**	–
Other movements	**(7)**	3
31 December	**1,628**	843

(i) The £747 million in 2021 relates to nuclear investment impairment write-back (2020: nuclear investment impairment £(481) million). See note 7 for further details.
(ii) In 2020, a non-cash £10 million tax credit was received in lieu of payment of a dividend.
(iii) In 2021, the group sold its 50% equity stake in Barrow Shipping Limited.

(b) Share of joint ventures' and associates' assets and liabilities

	2021			2020
31 December	Associates Nuclear £m	Other £m	**Total £m**	Total £m
Share of non-current assets	5,109	4	**5,113**	4,457
Share of current assets	705	1	**706**	755
	5,814	5	**5,819**	5,212
Share of current liabilities	(358)	(1)	**(359)**	(205)
Share of non-current liabilities	(3,139)	(1)	**(3,140)**	(2,720)
	(3,497)	(2)	**(3,499)**	(2,925)
Cumulative impairment	(692)	–	**(692)**	(1,444)
Interests in joint ventures and associates	**1,625**	**3**	**1,628**	843
Net cash included in share of net assets	50	–	**50**	105

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

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15. Other intangible assets and goodwill

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands usually arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities, the assembled workforce and also arises from items such as deferred tax. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates/Renewable Energy Certificates (ROCs/RECs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to PP&E or is deemed not commercially viable and is written down.

(a) Carrying amounts

	2021						2020					
	Customer relation-ships and brands £m	Application software (i) (ii) £m	EUA/ ROC/RECs £m	Exploration and evaluation expenditure £m	Goodwill £m	**Total £m**	Customer relation-ships and brands £m	Application software (i) (ii) £m	EUA/ ROC/RECs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	**203**	**1,752**	**208**	**352**	**1,651**	**4,166**	764	2,021	179	320	3,171	6,455
Additions and capitalised borrowing costs	**–**	**46**	**654**	**51**	**–**	**751**	9	99	1,047	61	–	1,216
Acquisitions	**13**	**–**	**–**	**–**	**–**	**13**	–	–	–	–	3	3
Disposals/retirements and surrenders	**(9)**	**(215)**	**(648)**	**(26)**	**–**	**(898)**	(3)	(10)	(818)	–	–	(831)
Write-downs	**–**	**–**	**–**	**(58)**	**–**	**(58)**	–	–	–	(24)	–	(24)
Transfers	**–**	**–**	**–**	**(10)**	**–**	**(10)**	–	–	–	(3)	–	(3)
Transfers to disposal groups held for sale	**–**	**–**	**–**	**(187)**	**(968)**	**(1,155)**	(576)	(360)	(195)	(1)	(1,538)	(2,670)
Exchange adjustments	**(6)**	**1**	**(1)**	**(1)**	**(18)**	**(25)**	9	2	(5)	(1)	15	20
31 December	**201**	**1,584**	**213**	**121**	**665**	**2,784**	203	1,752	208	352	1,651	4,166
Accumulated amortisation												
1 January	**91**	**1,166**	**–**	**247**	**722**	**2,226**	580	1,132	–	117	593	2,422
Amortisation (iii)	**13**	**175**	**–**	**–**	**–**	**188**	27	231	–	–	–	258
Disposals/retirements and surrenders	**(9)**	**(211)**	**–**	**–**	**–**	**(220)**	(3)	(9)	–	–	–	(12)
Impairments	**–**	**17**	**–**	**–**	**301**	**318**	–	83	–	130	140	353
Transfers to disposal groups held for sale	**–**	**–**	**–**	**(124)**	**(758)**	**(882)**	(520)	(269)	–	–	(10)	(799)
Exchange adjustments	**–**	**(4)**	**–**	**(2)**	**(1)**	**(7)**	7	(2)	–	–	(1)	4
31 December	**95**	**1,143**	**–**	**121**	**264**	**1,623**	91	1,166	–	247	722	2,226
NBV at 31 December	**106**	**441**	**213**	**–**	**401**	**1,161**	112	586	208	105	929	1,940

(i) Application software includes assets under construction with a cost of £71 million (2020: £130 million).
(ii) The remaining amortisation period of individually material application software assets, which had a carrying value of £171 million (2020: £239 million), is between two and four years.
(iii) Amortisation of £188 million (2020: £258 million) has been recognised in operating costs from continuing and discontinued operations before exceptional items.

15. Other intangible assets and goodwill

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

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

		2021			2020 (i)		
31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	**Carrying amount of goodwill £m**	**Carrying amount of indefinite-lived intangible assets (ii) £m**	**Total £m**	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible assets (ii) £m	Total £m
CGUs							
Continuing operations:							
British Gas Services & Solutions	AlertMe/Dyno-Rod	**63**	**57**	**120**	63	57	120
British Gas Energy	Enron Direct/Electricity Direct	**121**	**–**	**121**	121	–	121
Centrica Business Solutions – Energy solutions	ENER-G/Panoramic Power/ REstore/SmartWatt	**–**	**–**	**–**	104	–	104
– Energy supply	Enron Direct/Electricity Direct	**60**	**–**	**60**	60	–	60
Bord Gáis Energy	Bord Gáis Energy	**15**	**–**	**15**	16	–	16
Energy Marketing & Trading	Neas Energy	**142**	**–**	**142**	151	–	151
Upstream	Newfield/Heimdal/Venture/Bayerngas	**–**	**–**	**–**	414	–	414
		401	**57**	**458**	929	57	986

(i) Segmental results have been restated to reflect the new operating structure of the Group (see note 1).
(ii) The indefinite-lived intangible assets relate mainly to the Dyno-Rod brand.

The Group has considered the impact of climate change on the carrying value of goodwill, including the impact of the risks and opportunities included within the TCFD disclosure on page 34. Given the relatively low carrying value of goodwill within each CGU, the Group has concluded that the climate risks and opportunities do not give rise to an impairment.

16. Deferred tax assets and liabilities

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax assets and liabilities recognised by the Group relate to capital investments, decommissioning assets and provisions, tax losses, fair value movements on derivative financial instruments, PRT and pensions.

	Accelerated tax depreciation (corporation tax) £m	Net decommissioning (i) £m	Losses carried forward (ii) £m	Other timing differences (iii) £m	Marked to market positions £m	Net deferred PRT (iv) £m	Retirement benefit obligation and other provisions £m	Total £m
1 January 2020	(924)	867	255	15	134	138	(83)	402
Credit/(charge) to income	225	9	(114)	(18)	(153)	(13)	(30)	(94)
(Charge)/credit to equity	–	–	–	–	(12)	–	122	110
Transferred to held for sale	37	–	(6)	69	(33)	–	(5)	62
Exchange and other adjustments	–	–	1	6	–	–	–	7
31 December 2020	(662)	876	136	72	(64)	125	4	**487**
(Charge)/credit to income	(383)	109	51	(36)	601	(83)	(30)	**229**
Credit/(charge) to equity	–	–	–	–	8	–	(90)	**(82)**
Transferred to held for sale	582	(428)	–	(6)	–	–	–	**148**
Exchange and other adjustments	5	(1)	–	1	–	–	–	**5**
31 December 2021	**(458)**	**556**	**187**	**31**	**545**	**42**	**(116)**	**787**

(i) Net decommissioning includes deferred tax assets of £638 million (2020: £1,145 million) in respect of decommissioning provisions.
(ii) The losses arise principally from accelerated allowances for upstream investment expenditure, for which equivalent deferred tax liabilities are included under accelerated tax depreciation.
(iii) Other timing differences include a deferred tax asset of £27 million (2020: £60 million) in respect of unrelieved interest costs.
(iv) The deferred PRT amounts include the effect of deferred corporation tax as PRT is chargeable to corporation tax.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2021		2020	
31 December	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Gross deferred tax balances	**1,404**	**(617)**	1,655	(1,168)
Offsetting deferred tax balances	**(581)**	**581**	(1,019)	1,019
Net deferred tax balances (after offsetting for financial reporting purposes)	**823**	**(36)**	636	(149)

Deferred tax assets arise typically on decommissioning provisions, trading losses carried forward, retirement benefit obligations and marked to market positions. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to gas and oil production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date, the Group had certain unrecognised deductible temporary differences of £1,762 million (2020: £2,205 million), of which £1,762 million (2020: £2,089 million) related to carried forward tax losses available for utilisation against future taxable profits. In 2020 £2 million of these losses were expected to expire within one to five years, however due to a change in tax legislation the losses no longer have an expiry date.

No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2020: £nil).

17. Trade and other receivables, and contract-related assets

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of provisions for bad debt. Other receivables include payments made in advance to our suppliers. Contract-related assets are balances arising as a result of the Group's contracts with customers in the scope of IFRS 15.

	2021		2020	
31 December	Current £m	Non-current £m	Current £m	Non-current £m
Financial assets:				
Trade receivables	1,546	–	1,379	–
Unbilled downstream energy income	726	–	532	–
Trading and energy procurement accrued income (i)	2,546	–	731	–
Other accrued energy income	175	–	60	–
Other accrued income	108	–	114	–
Cash collateral posted	888	–	56	–
Other receivables (including loans and contract assets) (ii)	333	135	219	31
	6,322	135	3,091	31
Less: provision for credit losses	(633)	–	(591)	–
	5,689	135	2,500	31
Non-financial assets: prepayments, other receivables and costs to obtain or fulfil a contract with a customer	192	98	301	114
	5,881	233	2,801	145

(i) Trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties and expected credit losses are not significant.

(ii) Other receivables include £234 million (2020: £nil) of SoLR claims, see note 3(a) for further details.

The amounts above include gross amounts receivable arising from the Group's IFRS 15 contracts with customers of £1,419 million (2020: £1,302 million). Additionally, accrued income of £797 million (2020: £624 million) arising under IFRS 15 contracts is included.

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

	2021		2020	
31 December	Current £m	Non-current £m	Current £m	Non-current £m
Financial assets by class:				
Residential customers	1,664	110	1,249	–
Business customers	1,019	21	930	25
Treasury, trading and energy procurement counterparties	3,639	4	912	6
	6,322	135	3,091	31
Less: provision for credit losses	(633)	–	(591)	–
	5,689	135	2,500	31

17. Trade and other receivables, and contract-related assets

Credit loss charge for trade and other receivables

The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

	2021				2020 (v)			
	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(400)	(187)	(4)	**(591)**	(346)	(165)	(4)	(515)
Increase in impairment of trade receivables (predominantly related to credit impaired trade receivables) (i) (ii) (iii)	(84)	(39)	–	**(123)**	(132)	(78)	–	(210)
Receivables written off (iv)	58	19	4	**81**	78	56	–	134
31 December	**(426)**	**(207)**	**–**	**(633)**	(400)	(187)	(4)	(591)

(i) Includes £107 million (2020: £182 million) of credit losses related to trade receivables resulting from contracts in the scope of IFRS 15.
(ii) All loss allowances reflect the lifetime expected credit losses on trade receivables and contract assets.
(iii) Excludes recovery of previously written-off receivables of £7 million (2020: £15 million). Due to the large number of individual receivables and the matrix approach employed, any reduction in provision is reflected in a reduced charge for the relevant period, rather than in separately identifiable reversals of previous provisions.
(iv) Materially all write-offs relate to trade receivables where enforcement activity is ongoing.
(v) 2020 has been presented excluding discontinued operations.

Year ended 31 December	**2021 £m**	2020 (i) £m
Increase in impairment provision for trade receivables (per above)	**(123)**	(210)
Less recovery of previously written-off receivables	**7**	15
Credit losses on financial assets (per Group Income Statement)	**(116)**	(195)

(i) 2020 has been presented excluding discontinued operations.

Enforcement activity continues in respect of balances that have been written off unless there are specific known circumstances (such as bankruptcy) that render further action futile.

17. Trade and other receivables, and contract-related assets

Credit losses and provisions for Trade and other receivables

Receivables from residential and business customers are generally considered to be credit impaired when the payment is past the contractual due date. The Group applies different definitions of default for different groups of customers, ranging from sixty days past the due date to six to twelve months from the issuance of a final bill. Receivables are generally written off only once a period of time has elapsed since the final bill. Contractual due dates range from falling due upon receipt to falling due in thirty days from receipt.

The table below shows credit impaired balances in gross receivables (those that are past due) and those that are not yet due and therefore not considered to be credit impaired.

Gross trade and other receivables 31 December	**2021** **£m**	2020 (i) £m
Balances that are not past due	**5,032**	2,029
Balances that are past due	**1,290**	1,062
	6,322	3,091

(i) 2020 has been presented excluding discontinued operations.

The IFRS 9 impairment model is applicable to the Group's financial assets including trade receivables, contract assets and other financial assets as described in note S3. As the majority of the relevant balances are trade receivables and contract assets to which the simplified model applies, this disclosure focuses on these balances.

The provision for credit losses for trade receivables and contract assets is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. Expected credit losses on receivables due from treasury, trading and energy procurement counterparties are not significant (see note S3 for further analysis of this determination). For residential and business customers default rates are calculated initially by considering historical loss experience and applied to trade receivables within a provision matrix. The matrix approach allows application of different default rates to different groups of customers with similar characteristics. These groups are determined by a number of factors including; the nature of the customer, the payment method selected and where relevant, the sector in which they operate. The characteristics used to determine the groupings of receivables are the factors that have the greatest impact on the likelihood of default. The rate of default increases once the balance is thirty days past due.

Concentration of credit risk in Trade and other receivables

Treasury, trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties, and that risk is assessed primarily by reference to the credit ratings rather than to the ageing of the relevant balance. Counterparty credit rating information is given in note S3.

The Group was appointed as a Supplier of Last Resort to a number of energy suppliers who have ceased to trade. Under Ofgem licence conditions, the Group is entitled to make a Last Resort Supplier Payment claim for incremental costs reasonably incurred to supply affected customers; a total of £234 million has been recognised in other receivables at 31 December 2021. This, together with further costs incurred in the first three months of 2022 will be recovered as part of a two-step claim process. An initial claim, based on expected costs, has been submitted and approved by Ofgem, and will be recovered between April 2022 and April 2023. A second claim, based on actual costs will be submitted in Autumn 2022 and recovered between April 2023 and April 2024. The claims are settled by network operators who have strong credit ratings, and Ofgem have the power under licensing conditions to take enforcement action against default.

The Group's cash collateral balance has increased to £888 million in 2021 (2020: £56 million) as a result of higher commodity prices. The related liability for collateral received has increased by a similar proportion. Collateral counterparties typically have strong credit ratings and accordingly have low credit risk; the Group does not expect credit losses to arise on these balances.

The majority of the Group's credit exposure arises in the British Gas Energy and Centrica Business Solutions segments and relates to residential and business energy customers. The credit risk associated with these customers is assessed as described above, using a combination of the age of the receivable in question, internal ratings based on a customer's payment history, and external data from credit rating agencies. The disclosures below reflect the information that is reported internally for credit risk management purposes in these segments.

17. Trade and other receivables, and contract-related assets

British Gas Energy credit risk

Of the Group total of £1,546 million billed trade receivables, the British Gas Energy reporting segment contributes £1,033 million. British Gas Energy now includes small business customers previously included within Centrica Business Solutions on the basis that their profile closely matches those of residential customers. As described above, credit risk is concentrated in receivables from energy customers who pay in arrears. Gross receivables from British Gas Energy residential customers amount to £601 million (2020: £562 million) and are analysed below.

Trade receivables due from British Gas residential energy customers as at 31 December (i)	**2021**				2020			
Days beyond invoice date (ii)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Direct debits (iii)								
Gross receivables	55	28	53	**136**	28	20	34	82
Provision	–	–	(2)	**(2)**	–	–	(2)	(2)
Net	55	28	51	**134**	28	20	32	80
Payment on receipt of bill (iii)								
Gross receivables	87	22	194	**303**	76	21	222	319
Provision	(3)	(4)	(102)	**(109)**	(2)	(3)	(106)	(111)
Net	84	18	92	**194**	74	18	116	208
Final bills (iv)								
Gross receivables	7	8	147	**162**	11	10	140	161
Provision	(2)	(4)	(122)	**(128)**	(2)	(5)	(114)	(121)
Net	5	4	25	**34**	9	5	26	40
Total net British Gas residential energy customers trade receivables	**144**	**50**	**168**	**362**	111	43	174	328

(i) The receivables information presented in this table relates to downstream customers who pay energy bills using the methods presented. It excludes low residual credit risk amounts, such as balances in the process of recovery through pay-as-you-go energy (PAYGE) arrangements and amounts receivable from PAYGE energy vendors. Gross amounts in the process of recovery through PAYGE arrangements at 31 December 2021 are £201 million (2020: £168 million), against which a provision of £136 million is held (2020: £126 million). The credit risk associated with PAYGE arrangements has improved due to enforcement activity returning to pre-COVID levels.

(ii) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to residential energy customers. Amounts paid on receipt of a bill (PORB), which are settled using bank transfers, cash or cheques are typically due within fourteen days of invoicing. Direct debit customers typically pay in equal instalments over a twelve-month period.

(iii) Receivables settled by direct debit are deemed to present a lower credit risk than PORB amounts. This is reflected in the relative level of provision held for these types of receivables.

(iv) Final bill customers are those who are no longer customers of the Group and have switched energy supplier. These balances are deemed to have the highest credit risk.

During 2021 the British Gas segment has been further refined and separated into two operating segments, British Gas Energy and British Gas Services & Solutions. As a result of this change, small business customers in the UK are now included in British Gas Energy. Gross receivables from British Gas Energy small business customers amount to £232 million (2020: £176 million) and are analysed below.

Trade receivables due from British Gas small business energy customers as at 31 December	**2021**				2020			
Days beyond invoice date (i)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Small businesses								
Gross receivables	48	18	166	**232**	23	12	141	176
Provision	–	(1)	(128)	**(129)**	–	(1)	(100)	(101)
Total net British Gas small business energy customers trade receivables	**48**	**17**	**38**	**103**	23	11	41	75

(i) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for small business customers are ten working days.

Unbilled downstream energy income at 31 December 2021 includes gross balances of £535 million in respect of British Gas energy customers (2020: £373 million), against which a provision of £21 million is held (2020: £20 million).

17. Trade and other receivables, and contract-related assets

Centrica Business Solutions energy credit risk

Of the Group total of £1,546 million billed trade receivables, the Centrica Business Solutions reporting segment contributes £299 million. As described above, credit risk is concentrated in receivables from business energy customers who pay in arrears. Gross receivables from these customers amount to £251 million (2020: £199 million) and are analysed below.

Trade receivables due from Centrica Business Solutions business energy customers as at 31 December	**2021**				2020			
Days beyond invoice date (i)	< 30 days £m	30-90 days £m	>90 days £m	**Total £m**	< 30 days £m	30-90 days £m	>90 days £m	Total £m
Risk profile								
Commercial and industrial (ii)								
Gross receivables	116	3	47	**166**	18	35	76	129
Provision	–	–	(18)	**(18)**	–	–	(27)	(27)
Net	116	3	29	**148**	18	35	49	102
Medium-sized entities (ME)								
Gross receivables	22	7	56	**85**	13	7	50	70
Provision	–	–	(36)	**(36)**	–	–	(32)	(32)
Net	22	7	20	**49**	13	7	18	38
Total net Centrica Business Solutions business energy customers trade receivables	**138**	**10**	**49**	**197**	31	42	67	140

(i) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for ME customers are ten working days. Credit terms for Commercial and Industrial customers are bespoke and are set based on the commercial agreement with each customer.

(ii) This category includes low credit risk receivables, including those from public sector and customers with high turnover (greater than £100 million).

Unbilled downstream energy income at 31 December 2021 includes gross balances of £193 million in respect of Centrica Business Solutions business energy customers (2020: £118 million), against which a provision of £5 million is held (2020: £5 million).

17. Trade and other receivables, and contract-related assets

Sensitivity to changes in assumptions

Typically, the most significant assumption included within the expected credit loss provisioning model that gives rise to estimation uncertainty is that future performance will be reflective of past performance and that there will be no significant change in the payment profile or recovery rates within each identified group of receivables. To address this risk, the Group reviews and updates default rates, by group, on a regular basis to ensure they incorporate the most up to date assumptions along with forward-looking information where available and relevant. The Group also considers regulatory changes and customer segment specific factors that may have an impact, now or in the future, on the recoverability of the balance.

The specific consideration of forward-looking information in the impairment model does not usually give rise to significant changes in the levels of credit losses. However, inflationary pressures, increasing wholesale gas and electricity costs and the impacts of the global COVID-19 pandemic, continue to cause uncertainty in economic outlook. The economic recovery remains vulnerable and there remains a level of estimation uncertainty inherent in determining credit loss provisions for the Group's trade receivables.

Where customers experience difficulties in settling balances, the increased ageing of these amounts results in an increase in provisions held in respect of them under the provision matrix approach employed. The Group has also considered changes in customer payment patterns, the specific circumstances of the customers and the economic impacts of the factors identified above, on the sectors in which they operate. Whilst economic recovery is expected, a level of unpredictability remains apparent.

The Group has considered macroeconomic forecasts in determining the level of provisions for credit losses. Customers are facing increases to their cost of living, including increased energy bills, higher inflation and higher interest rates. Support received under COVID-19 assistance programmes has now been withdrawn. Unbilled energy income is more susceptible to credit risk from such forward-looking factors due to the length of time between the balance sheet date and collection of the amounts in cash. The Group considers that future economic growth remains modest.

During 2021 the Group recognised impairment charges of £116 million (2020: £195 million) in respect of financial assets, representing 0.8% of Group revenue (2020: 1.6%) and 0.6% of Group revenue from business performance (2020: 1.3%). The lower impairment charges in 2021 are driven by a reversion to a normalised level of bad debt charges. The prior year included a £30 million macroeconomic uplift. As described above, the majority of the Group's credit exposure arises in respect of downstream energy receivables in British Gas Energy and Centrica Business Services. Credit losses in respect of these assets amounted to £104 million (2020: £179 million). This represents 1.1% (2020: 2.2%) of total UK downstream energy supply revenue from these segments of £9,162 million (2020: £8,262 million). Further details of segmental revenue are provided in note 4.

Due to the different level of risks presented by billed and unbilled receivables, these asset groups are considered separately in the analysis below.

Billed trade receivables

	31 December 2021 £m	31 December 2020 £m
Gross billed receivables	**1,546**	1,379
Provision	**(607)**	(566)
Net balance	**939**	813

	31 December 2021 %	31 December 2020 %
Provision coverage	**39**	41
Sensitivity	**£m**	£m
Impact on billed receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage [(i)]	**(16)/16**	(14)/14

(i) Credit risk in the Group is impacted by a large number of interacting factors.

Cash collection relative to billing has remained strong throughout the whole of 2021, continuing the trends seen during the first year of the pandemic. Provision rates by customers in the Group's downstream operations have fallen marginally, as both ageing and deemed credit quality improved. This is driven by improved macroeconomic conditions and partly benefiting from field activity resuming with fewer COVID restrictions. However, the credit risk arising from the macroeconomic outlook remains challenging; with significantly higher energy bills expected, rising inflation and higher interest rates expected. These factors are yet to be reflected to date in the underlying matrix output model used to book provision coverage, due in part to protection offered to domestic consumers via the Price Cap. However there remains significant uncertainty around the possible increase in bad debt as a result of these factors. Therefore, as part of management's assessment of the adequacy of bad debt provisions, no material change has been made to the £30 million macroeconomic provision that was booked for the year ended 31 December 2020. It remains highly uncertain when and how these factors will reduce the collectability of debt and what impact proposals by Ofgem or future interventions by Government may have to limit the impact of these. The table above and the unbilled section below provides details of the sensitivity of moving the bad debt provision by a further 1%.

The Group's services, upstream and trading operations are less susceptible to credit risk. No significant deterioration of credit risk has been experienced or is expected in the relevant segments in respect of billed trade receivables recognised at 31 December 2021, taking into account cash collection cycles in those areas of the Group and credit rating information (see note S3).

17. Trade and other receivables, and contract-related assets

Unbilled downstream energy income

The table below shows the IFRS 15 unbilled downstream energy income for the Group as a whole.

	31 December 2021 £m	31 December 2020 £m
Gross unbilled receivables	**726**	532
Provision	**(26)**	(25)
Net balance	**700**	507

	31 December 2021 %	31 December 2020 %
Provision coverage	**4**	5
Sensitivity	**£m**	£m
Impact on unbilled receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage [(i)]	**(7)/7**	(5)/5

(i) Credit risk in the Group is impacted by a large number of interacting factors.

Unbilled downstream energy income is typically provided at a significantly lower rate than billed debt. This is because a large proportion of this debt once billed will be subject to the very short cash collection cycles of the Group's downstream energy supply businesses.

18. Inventories

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	2021 £m	2020 £m
Gas and oil in storage and transportation [(i)]	**486**	103
Other raw materials and consumables	**99**	169
Finished goods and goods for resale	**59**	52
	644	324

(i) Includes oil inventory and gas in storage held at fair value of £331 million (2020: £83 million).

Excluding discontinued operations, the Group consumed £560 million of inventories (2020: £423 million) during the year. Write-downs amounting to £23 million (2020: £15 million) were charged to the Group Income Statement in the year.

19. Derivative financial instruments

The Group generally uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities associated with treasury management and energy sales and procurement, and for proprietary energy trading purposes. The Group also used derivatives to hedge the exchange risk arising on the net assets of its US dollar Direct Energy subsidiaries which were sold in January 2021. Derivatives are held at fair value.

For accounting purposes, derivatives are either classified as held for trading, in which case changes in their fair value are recognised in the Group Income Statement, or they are designated in hedging relationships. Where derivatives are in hedging relationships, the treatment of changes in their fair value depends on the nature of that relationship, and whether it represents a fair value hedge, a cash flow hedge, or a net investment hedge. Note S5 provides further detail on the Group's hedge accounting. The table below gives a high-level summary of the Group's accounting for its derivative contracts.

Purpose	Classification	Accounting treatment
Proprietary energy trading and treasury management.	Held for trading and fair value hedges.	Changes in fair value recognised in the Group's business performance results for the year.
Treasury management and hedging of exchange risk on net assets of US dollar Direct Energy subsidiaries.	Cash flow and net investment hedges.	Effective portion of hedge initially recognised in the Group Statement of Other Comprehensive Income. Gains and losses are recycled to the Group Income Statement when the hedged item impacts profit or loss. Ineffective portions of the hedge are recognised immediately in the Group's business performance results for the year.
Energy procurement and optimisation.	Held for trading.	Changes in fair value recognised in the Group's exceptional items and certain re-measurements results for the year.

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

31 December	2021 Assets £m	2021 Liabilities £m	2020 Assets £m	2020 Liabilities £m
Derivative financial instruments – held for trading under IFRS 9:				
Energy derivatives – for procurement/optimisation	**3,611**	**(2,203)**	585	(445)
Energy derivatives – for proprietary trading	**3,775**	**(3,749)**	726	(667)
Interest rate derivatives	**4**	**–**	3	–
Foreign exchange derivatives	**60**	**(50)**	49	(46)
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives	**67**	**–**	182	(1)
Foreign exchange derivatives	**33**	**(7)**	204	(9)
Total derivative financial instruments	**7,550**	**(6,009)**	1,749	(1,168)
Included within:				
Derivative financial instruments – current	**6,545**	**(4,929)**	1,224	(747)
Derivative financial instruments – non-current	**1,005**	**(1,080)**	366	(181)
Assets and liabilities held for sale	**–**	**–**	159	(240)

Included in derivative liabilities above is £nil (2020: £77 million) relating to virtual gas storage arrangements. These contracts give the parties rights to put and call gas volumes over their term, economically mirroring physical storage arrangements. Optimisation of virtual storage contracts under related commodity sale and purchase arrangements with the same parties has given rise to net operating cash inflows of £nil during 2021 (2020: £40 million). These cash flows arise from the normal commodity trading activities of the Group, and are therefore operating in nature, but are separately disclosed because the timing of cash flows under the arrangements can give rise to a cash flow benefit akin to a financing arrangement.

19. Derivative financial instruments

The contracts included within energy derivatives are subject to a wide range of detailed specific terms, but comprise the following general components, analysed on a net carrying value basis:

31 December	2021 £m	2020 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	69	(26)
North America [(i)]	–	(81)
Other derivative contracts including structured gas sale and purchase arrangements	1,365	306
Net total	1,434	199

(i) Derivatives held by the Direct Energy business were classified as assets and liabilities held for sale at 31 December 2020.

Net gains/(losses) on derivative financial instruments due to re-measurement

	2021		2020	
31 December	Income Statement £m	Equity £m	Income Statement £m	Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading	1,263	–	346	–
Derivative financial instruments in hedge accounting relationships	(95)	(42)	73	102
	1,168	(42)	419	102

20. Trade and other payables, and contract liabilities

Trade and other payables include accruals and are principally amounts we owe to our suppliers. Financial deferred income represents monies received from customers in advance of the delivery of goods or services that may be returned to the customer if future delivery does not occur. For example, downstream customers with a credit balance may request repayment of the outstanding amount in cash, rather than taking delivery of commodity. By contrast, contract liabilities and non-financial deferred income arise when the Group receives consideration from a customer in advance of performance, and has a non-financial liability to deliver future goods or services in return.

	2021		2020	
31 December	Current £m	Non-current £m	Current £m	Non-current £m
Financial liabilities:				
Trade payables	(542)	(2)	(440)	–
Deferred income [(i)]	(281)	–	(331)	–
Capital payables	(85)	–	(114)	–
Cash collateral received	(1,185)	–	(68)	–
Other payables	(164)	(100)	(225)	(92)
Accruals:				
Commodity costs	(3,462)	–	(1,019)	–
Transportation, distribution and metering costs	(258)	–	(258)	–
Operating and other accruals	(775)	–	(584)	–
	(4,495)	–	(1,861)	–
	(6,752)	(102)	(3,039)	(92)
Non-financial liabilities:				
Other payables and accruals	(661)	(3)	(589)	(2)
Contract liabilities	(33)	(15)	(26)	(20)
Deferred income	(67)	–	(68)	–
	(7,513)	(120)	(3,722)	(114)

(i) Includes downstream customer credit balances for amounts billed in advance of energy supply.

Maturity profile of financial liabilities within current trade and other payables

31 December	2021 £m	2020 £m
Less than 90 days	(6,531)	(2,817)
90 to 182 days	(134)	(90)
183 to 365 days	(87)	(132)
	(6,752)	(3,039)

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21. Provisions for other liabilities and charges

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing and/or amount of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Further provisions relate to sale and purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters. During the year we have recognised a material onerous supply contract provision within sale/purchase contract loss provision.

Current	1 January 2021 £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Utilised £m	Transfers (v) £m	Exchange adjustments £m	**31 December 2021 £m**
Restructuring costs	(64)	(23)	–	8	43	6	1	**(29)**
Decommissioning costs [(i) (ii)]	(73)	–	–	–	55	(132)	1	**(149)**
Sale/purchase contract loss provision[(iii)]	(8)	(2,531)	–	3	4	(3)	–	**(2,535)**
Other[(iv)]	(43)	(34)	–	8	43	(28)	(2)	**(56)**
	(188)	**(2,588)**	**–**	**19**	**145**	**(157)**	**–**	**(2,769)**

Non-current	1 January 2021 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers (v) £m	Exchange adjustments £m	**31 December 2021 £m**
Restructuring costs	(6)	–	(3)	–	4	–	(6)	(1)	**(12)**
Decommissioning costs [(i) (ii)]	(2,335)	4	(15)	–	53	12	887	22	**(1,372)**
Sale/purchase contract loss provision	(27)	–	–	–	–	–	3	–	**(24)**
Other[(iv)]	(70)	–	(3)	(1)	1	(2)	28	1	**(46)**
	(2,438)	**4**	**(21)**	**(1)**	**58**	**10**	**912**	**22**	**(1,454)**

Included within the above liabilities are the following financial liabilities:

31 December	**2021 Current £m**	**2021 Non-current £m**	2020 Current £m	2020 Non-current £m
Restructuring costs	**(29)**	**(12)**	(64)	(6)
Provisions other than restructuring costs	**(2,580)**	**(57)**	(43)	(83)
	(2,609)	**(69)**	(107)	(89)

(i) Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The payment dates of decommissioning costs are dependent on the lives of the facilities, but utilisation of the provision is expected to occur until the 2040s. The maturity profile of total decommissioning provisions is analysed below:

Maturity profile of decommissioning provisions 31 December	**2021 £m**
2022-2026	**(741)**
2027-2031	**(619)**
2032-2036	**(143)**
2037-2041	**(12)**
2042-2046	**(6)**
	(1,521)

During the year the rate used to discount decommissioning provisions remained at 0% on the basis that market risk-free rates remain suppressed. See note 3.

(ii) Included in the provision balance as at 31 December 2021 is £1,173 million held in Spirit Energy, £332 million in relation to the Rough field, and £16 million in the remainder of the business.

(iii) Includes onerous supply contract provision, see notes 3 and 7.

(iv) Other provisions have been made for dilapidations, insurance, legal, warranty and various other claims.

(v) Includes amounts transferred between current and non-current and transfers to disposal groups held for sale. The split is shown on the next page.

21. Provisions for other liabilities and charges

Transfers

31 December 2021	Current: Transfer to/(from) non-current £m	Current: Transfer to disposal groups held for sale £m	Non-current: Transfer (from)/to current £m	Non-current: Transfer to disposal groups held for sale £m
Restructuring costs [(a)]	6	–	(6)	–
Decommissioning costs [(b)]	(137)	5	137	750
Sale/purchase contract loss provision	(3)	–	3	–
Other	(28)	–	28	–
	(162)	5	162	750

(a) Certain restructuring projects have been deferred into 2023.

(b) Transfers to held for sale relates to the disposal of the Norway business. See note 12.

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22. Post-retirement benefits

The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.

(a) Summary of main post-retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2021	Total membership as at 31 December 2021
Centrica Engineers	Defined benefit final salary pension	Closed to new members in 2006	UK	1,756	8,465
Pension Scheme	Defined benefit career average pension	Open to service engineers only	UK	2,791	6,477
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	1,566	8,491
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	1	10,278
	Defined benefit career average pension	Closed to new members in 2008	UK	795	4,220
	Defined contribution pension	Open to new members	UK	9,718	18,935
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	99	171
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	230	357

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions, which together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations agreed and finalised with the Pension Trustees were carried out at the following dates: the Registered Pension Schemes at 31 March 2018 and the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2020. For the Registered Pension Schemes, a full actuarial valuation as at 31 March 2021 is currently being undertaken. These valuations (including insights from the current in-progress valuation) have been updated to 31 December 2021 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine directors: three independent directors, three directors appointed by Centrica plc (including the Chairman) and one director appointed by each of the three Registered Pension Schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2018 valuation.

22. Post-retirement benefits

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the risk tolerances that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc)), and only took on past service liabilities in respect of active employees. The trustees significantly reduced their risk tolerance in 2019, increasing inflation and interest rate hedges from one third to two thirds, and have further de-risked since then to around an 85% hedge level at the 2021 year-end. This has resulted in a significant reduction of return-seeking assets within the portfolio, as well as a higher weighting to assets that better manage downside risk.

Interest rate

A decrease in bond interest rates will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk. This risk is reduced via the hedging referred to in the Asset volatility section.

Inflation

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Therefore, scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. Furthermore, a pension increase exchange (PIE) option implemented in 2015 is available to future retirees, which gives the choice to receive a higher initial pension in return for giving up certain future increases linked to RPI, again limiting the impact of significant movements in inflation.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented, and in 2019 a similar change took place for CEPS. All of the 2011, 2016 and 2019 changes result in a reduction in salary risk.

Foreign exchange

Certain assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging policies in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2021.

Total liabilities of the Registered Pension Schemes 31 December	2021 %
Actives – final salary – capped	**18**
Actives – final salary – uncapped and crystallised benefits	**4**
Actives – career average	**6**
Deferred pensioners	**33**
Pensioners	**39**
	100

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22. Post-retirement benefits

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are given below:

Major assumptions used for the actuarial valuation 31 December	**2021** **%**	2020 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.8**	1.6
Other not subject to cap	**2.6**	2.2
Rate of increase in pensions in payment	**3.1**	2.8
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.4**	2.0
In line with RPI	**3.1**	2.8
Discount rate	**1.8**	1.5

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member	**2021**		2020	
31 December	**Male** **Years**	**Female** **Years**	Male Years	Female Years
Currently aged 65	**22.5**	**24.0**	22.6	24.0
Currently aged 45	**23.8**	**25.1**	24.0	25.2

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

For the Registered Pension Schemes, marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions	**2021**		2020	
31 December	**Increase/ decrease in assumption**	**Indicative effect on scheme liabilities %**	Increase/ decrease in assumption	Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/-0**	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/-4**	0.25%	+/-4
Discount rate	**0.25%**	**-/+5**	0.25%	-/+6
Inflation assumption	**0.25%**	**+/-5**	0.25%	+/-5
Longevity assumption	**1 year**	**+/-4**	1 year	+/-4

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Group Balance Sheet

31 December	**2021** **£m**	2020 £m
Fair value of plan assets	**10,666**	10,070
Present value of defined benefit obligation	**(10,666)**	(10,671)
Net liability recognised in the Group Balance Sheet	**–**	(601)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit assets	**231**	–
Retirement benefit liabilities	**(231)**	(601)

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the consolidated Financial Statements.

22. Post-retirement benefits

(e) Movements in the year

	2021		2020	
	Pension liabilities £m	Pension assets £m	Pension liabilities £m	Pension assets £m
1 January	**(10,671)**	**10,070**	(9,162)	8,999
Items included in the Group Income Statement:				
Current service cost	**(85)**	**–**	(79)	–
Contributions by employer in respect of employee salary sacrifice arrangements [(i)]	**(20)**	**–**	(28)	–
Total current service cost	**(105)**	**–**	(107)	–
Past service credit	**1**	**–**	–	–
Interest (expense)/income	**(155)**	**150**	(197)	197
Termination benefit/(cost)	**52**	**–**	(120)	–
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**301**	–	936
Actuarial (loss)/gain from changes to demographic assumptions	**(12)**	**–**	55	–
Actuarial gain/(loss) from changes in financial assumptions	**123**	**–**	(1,434)	–
Actuarial loss from experience adjustments	**(194)**	**–**	(58)	–
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**420**	–	241
Contributions by employer in respect of employee salary sacrifice arrangements	**–**	**20**	–	28
Other movements:				
Benefits paid from schemes	**297**	**(297)**	286	(286)
Other	**(2)**	**2**	(3)	3
Transferred to held for sale	**–**	**–**	69	(48)
31 December	**(10,666)**	**10,666**	(10,671)	10,070

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions and included within the current service cost, with a corresponding reduction in salary costs.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £61 million (2020: £64 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £15 million (2020: £20 million) paid via a salary sacrifice arrangement.

22. Post-retirement benefits

(f) Pension scheme assets

The market values of plan assets were:

31 December	2021 Quoted £m	2021 Unquoted £m	2021 Total £m	2020 Quoted £m	2020 Unquoted £m	2020 Total £m
Equities	**20**	**462**	**482**	19	396	415
Corporate bonds	**2,393**	**31**	**2,424**	2,649	–	2,649
High-yield debt	**2,720**	**1,197**	**3,917**	2,069	1,286	3,355
Liability matching assets	**1,963**	**1,356**	**3,319**	2,192	1,069	3,261
Property	**–**	**439**	**439**	–	352	352
Cash pending investment	**85**	**–**	**85**	38	–	38
	7,181	**3,485**	**10,666**	6,967	3,103	10,070

Unquoted private equity and debt funds are valued at fair value as calculated by the investment manager at the latest valuation date in accordance with generally accepted guidelines, adjusted for cash flow in the intervening period. Investment properties are valued in accordance with guidelines by independent valuers. These valuations are reviewed annually as part of the CCCIF audit. Included within equities are £nil of ordinary shares of Centrica plc (2020: £nil) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £nil (2020: £nil) of bonds issued by Centrica plc, albeit minor exposure may be held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships which form part of the asset-backed contribution arrangements described in section (g) of this note, no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries. The corporate bond, high-yield debt and liability matching asset categories headings above have segregated portfolio mandates which include the cash, cash funds and derivatives associated with the mandates.

Included within the Group Balance Sheet within non-current securities are £111 million (2020: £108 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £66 million (2020: £66 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 71 to 81.

(g) Pension scheme contributions

The Group estimates that it will pay £59 million of ordinary employer contributions during 2022 for its defined benefit schemes, at an average rate of 23% of pensionable pay, together with £22 million of contributions paid via a salary sacrifice arrangement. At 31 March 2021 (the date of the current in-progress actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 22 years.

For the Registered Pension Schemes the last actuarial valuation agreed with the Pension Trustees was as at 31 March 2018. The technical provisions deficit (funding basis) at that time was £1,402 million. The Group committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, totalled £235 million in 2019, £175 million in 2020 and 2021 and will amount to £175 million per annum from 2022 to 2025, with a balancing payment of £93 million in 2026. As part of this agreement, a deferral arrangement was also agreed for pension strain liabilities resulting from redundancies made between 1 July 2019 and 30 June 2021, up to a limit of £240 million. A security package over the Group's equity shareholding in the Direct Energy business, enforceable in the unlikely event the Group was unable to meet its obligations, was also provided and amounted to £1,235 million.

In January 2021, as part of the Direct Energy disposal, this security package was released by the Pension Trustees. In exchange, the Group provided replacement security of £745 million of letters of credit and £250 million cash in escrow. The pension strain liability deferral arrangement was cancelled, resulting in payments to the Schemes of £193 million during 2021, with further amounts expected in the future as other redundancies are finalised.

On a pure roll-forward basis, from 31 March 2018, using the same methodology and consequent assumptions, the technical provisions deficit (funding basis) would be c.£1.3 billion on 31 December 2021. Note that the current, in process triennial review has an effective date of 31 March 2021, and the valuation methodology and assumptions used for that assessment may differ from those previously used.

23. Leases, commitments and contingencies

(a) Commitments and leases

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group's commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts where there is a right of offset with the counterparty, and are based on the expected minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note S3, as only certain procurement and sales contracts are within the scope of IFRS 9 and included in note S3 and the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

The Group's 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US commits the Group to capacity payments of £3.5 billion (included in 'LNG capacity' below) between 2021 and 2039. It also allows the Group to make up to £6.0 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date.

During 2019, the Group signed a 20-year agreement to purchase LNG volumes from Mozambique LNG1 Company. The commercial start date is 2025 and under this agreement the Group is committed to make commodity purchases expected to amount to £6.2 billion based on market gas and oil prices at the reporting date.

These LNG contracts are deemed to be own use and therefore are accounted for on an accruals basis. Based on forecast gas spreads, they are predicted to be profitable, and remain so even under net zero scenario analysis, but due to their duration are exposed over a long period of time to the impact of climate change governmental policy decisions.

31 December	2021 £m	2020 (i) £m
Commitments in relation to the acquisition of PP&E	**255**	146
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates	**3,289**	3,624
Other intangible assets	**250**	827
Other commitments:		
Commodity purchase contracts	**44,443**	34,819
LNG capacity	**3,892**	4,086
Transportation capacity	**292**	1,093
Other long-term commitments (ii)	**526**	600

(i) Of the commitments at 31 December 2020 £5,649 million related to discontinued operations, predominantly from commodity purchase contracts.
(ii) Other long-term commitments include amounts in respect of executory contracts and the smart meter roll-out programme.

The maturity analysis for commodity purchase contract commitments at 31 December is given below:

	Commodity purchase contract commitments			
	Fixed price commodity commitments		Commodity commitments that float with indices	
31 December	2021 £billion	2020 £billion	2021 £billion	2020 £billion
<1 year	**6.8**	5.2	**9.2**	4.4
1–2 years	**1.5**	1.8	**7.3**	3.3
2–3 years	**0.3**	0.6	**4.4**	3.0
3–4 years	**0.1**	0.2	**3.1**	2.5
4–5 years	**–**	0.1	**1.3**	2.1
>5 years	**–**	0.4	**10.4**	11.2
	8.7	8.3	**35.7**	26.5

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23. Leases, commitments and contingencies

The Group enters into lease arrangements for assets including property, vehicles, vessels and assets used within the exploration and production business.

The carrying amount, additions and depreciation charge associated with right-of-use assets is disclosed in note 13 and the interest expense arising on the Group's lease liability is disclosed in note 8. The total Group cash outflow in the year for capital and interest from lease arrangements was £203 million, and the maturity analysis of cash flows associated with the Group's lease liability at the reporting date is shown in note S3.

The table below provides further information on amounts not included in the lease liability and charged to the Group Income Statement during the year.

Year ended 31 December	2021 £m	2020 £m
Expense related to short-term leases	9	47
Expense related to variable lease payments	26	32

During the year, the Group's expense related to short-term lease commitments predominantly related to the hire of LNG vessels and exploration and production drilling rigs. The commitment at the balance sheet date also relates to assets of a similar nature. The Group has £17 million sub-lease arrangements mainly for LNG vessels. The Group does not have any material arrangements in which it acts as a lessor.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

As at 31 December 2021, £525 million (2020: £665 million) of letters of credit and on-demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet.

(c) Contingent liabilities

The Group has no material contingent liabilities.

24. Sources of finance

(a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of net debt and equity as shown in the table below:

31 December	2021 £m	2020 (restated) (i) £m
Net debt	**(680)**	2,998
Shareholders' equity	**2,365**	957
Capital	**1,685**	3,955

(i) Net debt has been restated to remove the adjustment for collateral posted/(received). See part (c) of this note.

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements, and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of at least three years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies.

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowing is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through commercial paper or short-term bank borrowings. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required to hold a minimum capital amount under PRA regulations and has complied with this requirement since its inception. BGIL's capital management policy and plan are subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

(b) Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern, and as at the reporting date, the analysis performed by the Group extends to 31 December 2023. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its gross debt (excluding non-recourse debt) in the capital market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2021 the Group had undrawn committed credit facilities of £3,006 million (2020: £3,637 million) and £3,875 million (2020: £1,139 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. A further £18 million (2020: £107 million) of cash and cash equivalents is included in assets held for sale. 89% (2020: 93%) of the Group's gross debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.9 years (2020: 10.3 years). The completion of the disposal of the Direct Energy business on 5 January 2021 led to a cash receipt of $3.6 billion (£2.7 billion), significantly improving the Group's net debt position.

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these agreements depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement.

The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Governance section – Other Statutory Information, on page 97.

24. Sources of finance

(c) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

Presented in the derivatives and current and non-current borrowings, leases and interest accruals columns shown below are the assets and liabilities that give rise to financing cash flows.

				Other assets and liabilities			
	Current and non-current borrowings, leases and interest accruals £m	Derivatives £m	Gross debt £m	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Current and non-current securities (iii) £m	Sub-lease assets £m	Net debt (vi) £m
1 January 2020	(4,795)	234	(4,561)	794	255	5	(3,507)
Cash inflow from settlement and purchase of securities	–	–	–	121	(121)	–	–
Cash outflow for payment of capital element of leases	184	–	184	(184)	–	–	–
Cash outflow for repayment of borrowings	63	–	63	(63)	–	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements	–	–	–	963	–	(3)	960
Revaluation	(79)	132	53	–	5	–	58
Financing interest paid	213	(20)	193	(204)	–	–	(11)
Increase in interest payable and amortisation of borrowings	(218)	–	(218)	–	–	–	(218)
New lease agreements and re-measurement of existing lease liabilities	(239)	–	(239)	–	–	–	(239)
Exchange adjustments	(6)	–	(6)	(34)	(1)	–	(41)
Group net debt at 31 December 2020	(4,877)	346	(4,531)	1,393	138	2	(2,998)
Disposal of business (iv)	**36**	**–**	**36**	**(132)**	**(4)**	**–**	**(100)**
Cash outflow from settlement and purchase of securities	**–**	**–**	**–**	**(3)**	**3**	**–**	**–**
Cash outflow for payment of capital element of leases	**162**	**–**	**162**	**(162)**	**–**	**–**	**–**
Cash outflow for repayment of borrowings (v)	**650**	**(106)**	**544**	**(544)**	**–**	**–**	**–**
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements	**–**	**–**	**–**	**4,010**	**–**	**–**	**4,010**
Revaluation	**122**	**(133)**	**(11)**	**–**	**19**	**–**	**8**
Financing interest paid	**206**	**(14)**	**192**	**(233)**	**–**	**–**	**(41)**
Increase in interest payable and amortisation of borrowings	**(195)**	**–**	**(195)**	**–**	**–**	**–**	**(195)**
New lease agreements and re-measurement of existing lease liabilities	**(28)**	**–**	**(28)**	**–**	**–**	**–**	**(28)**
Exchange adjustments	**25**	**–**	**25**	**(1)**	**–**	**–**	**24**
Group net debt at 31 December 2021	**(3,899)**	**93**	**(3,806)**	**4,328**	**156**	**2**	**680**
Less assets and liabilities held for sale	**6**	**–**	**6**	**(18)**	**(21)**	**–**	**(33)**
Net debt excluding disposal groups held for sale at 31 December 2021	**(3,893)**	**93**	**(3,800)**	**4,310**	**135**	**2**	**647**

(i) Cash and cash equivalents includes £435 million (2020: £147 million) of restricted cash, of which £250 million relates to cash on escrow in favour of the UK defined benefit pension schemes. This includes cash totalling £31 million (2020: £11 million) within the Spirit Energy business that is not restricted by regulation but is managed by Spirit Energy's own treasury department.

(ii) Cash and cash equivalents are net of £750 million bank overdrafts (2020: £534 million).

(iii) Securities balances include £83 million (2020: £84 million) debt instruments and £52 million (2020: £50 million) equity instruments, all measured at fair value.

(iv) Disposal of business relates to the net debt items disposed of with the sale of Direct Energy in January 2021.

(v) Bond repayment comprises £650 million repayment of a 3% Euro bond which the Group had the right to repay at par on 10 April 2021 net of £106 million foreign exchange gain on a Euro bond derivative.

(vi) Net debt has been restated to remove the adjustment for collateral posted/(received), in order, to better align to external net debt definitions. The impact of the change is set out on the following page.

24. Sources of finance

Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. The below table highlights the net cash collateral posted by item on group balance sheet at 31 December 2020. Net debt was restated for these items.

31 December	2020 £m
Collateral (received)/posted included within:	
Trade and other payables	(68)
Trade and other receivables	56
Net derivative liabilities	86
Continuing operations net collateral posted	**74**
Discontinued operations net collateral posted	**155**
Group collateral posted	**229**
Disclosed net debt at 31 December 2020	2,769
Remove collateral posted	229
Restated net debt at 31 December 2020	**2,998**

(d) Borrowings, leases and interest accruals summary

			2021			2020		
31 December	Coupon rate %	Principal m	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts			(750)	–	(750)	(534)	–	(534)
Bank loans (> 5 year maturity)			–	(137)	(137)	–	(144)	(144)
Bonds (by maturity date):								
22 February 2022	3.680	HK$450	(43)	–	(43)	–	(42)	(42)
10 March 2022 (i)	6.375	£246	(241)	–	(241)	–	(253)	(253)
16 October 2023 (i)	4.000	US$302	–	(228)	(228)	–	(233)	(233)
4 September 2026 (i)	6.400	£52	–	(55)	(55)	–	(59)	(59)
16 April 2027	5.900	US$70	–	(51)	(51)	–	(51)	(51)
13 March 2029 (i)	4.375	£552	–	(559)	(559)	–	(604)	(604)
5 January 2032 (ii)	Zero	€50	–	(63)	(63)	–	(65)	(65)
19 September 2033 (i)	7.000	£770	–	(788)	(788)	–	(823)	(823)
16 October 2043	5.375	US$367	–	(267)	(267)	–	(264)	(264)
12 September 2044	4.250	£550	–	(538)	(538)	–	(538)	(538)
25 September 2045	5.250	US$50	–	(36)	(36)	–	(36)	(36)
10 April 2075 (i) (iii)	5.250	£450	–	(455)	(455)	–	(472)	(472)
10 April 2076 (iv)	3.000	€750	–	–	–	–	(671)	(671)
			(284)	(3,040)	(3,324)	–	(4,111)	(4,111)
Obligations under lease arrangements			(102)	(262)	(364)	(171)	(334)	(505)
Interest accruals			(68)	–	(68)	(82)	–	(82)
			(1,204)	(3,439)	(4,643)	(787)	(4,589)	(5,376)

(i) Bonds or portions of bonds maturing in 2022, 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedge relationship.
(ii) €50 million of zero coupon notes have an accrual yield of 4.2%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group had the right to repay at par on 10 April 2021 and that right was exercised.

25. Share capital

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought, principally as part of share repurchase programmes.

Allotted and fully paid share capital of the Company 31 December	**2021** **£m**	2020 £m
5,881,438,431 ordinary shares of 6[14/81] pence each (2020: 5,842,518,658)	**363**	361

During the year 39 million ordinary shares were issued at an average original purchase price of 84 pence for employee share awards.

The closing price of one Centrica ordinary share on 31 December 2021 was 71.5 pence (2020: 46.6 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares (i)		Treasury shares (i) (ii)	
	2021 million shares	2020 million shares	**2021 million shares**	2020 million shares
1 January	**59.6**	3.7	**–**	10.2
Shares purchased	**–**	60.7	**–**	–
Treasury shares placed into trust	**–**	1.0	**–**	(1.0)
Shares released to employees on vesting (ii)	**(25.8)**	(5.8)	**–**	(9.2)
31 December (i)	**33.8**	59.6	**–**	–

(i) The closing balance in the treasury and own share reserve of own shares was £18 million (2020: £31 million) and treasury shares was £nil (2020: £nil).
(ii) Includes shares purchased by employees under share purchase schemes for a value of £1 million.

26. Events after the balance sheet date

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2021 and the date of this report.

Together Energy Retail Limited

On 24 January 2022, as part of Ofgem's Supplier of Last Resort (SoLR) process, British Gas was appointed to supply energy to the c.176,000 customers of Together Energy Retail Limited, which ceased trading on 18 January 2022. This takes the cumulative total of customers acquired through the SoLR process in 2021 and 2022 to around 700,000 customers.

Disposal of Spirit Energy Norway and Statfjord field

On 13 January 2022, the Group held a general meeting in relation to the proposed sale of its Norwegian portfolio plus the Statfjord field. See note 12. The resolution to proceed with the transaction was approved by Centrica shareholders, and is subject to our partners SWM also receiving approval. Completion is now expected to occur in the second quarter of 2022.

Supplementary information

Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 1 to 46.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. Summary of significant accounting policies

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. Unless otherwise stated, these accounting policies have been consistently applied to the years presented.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3, and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee (which is the Group's Chief Operating Decision Maker as defined by IFRS 8: 'Operating segments') for the purposes of evaluating segment performance and allocating resources.

Revenue

Energy supply to business and residential customers

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

The Group holds a number of energy supply contracts that specify a minimum consumption volume over a specified contractual term. The transaction price for these contracts is the minimum supply volume multiplied by the contractually agreed price per unit of energy. Revenue from the sale of additional volumes is considered to be variable and not included in the transaction price. Revenue for these contracts continues to be recognised as invoiced.

In making disclosures under IFRS 15, the Group applies the practical expedient in paragraph 121 of IFRS 15 and therefore does not disclose information related to the transaction price allocated to remaining performance obligations on the basis that the Group recognises revenue from the satisfaction of the performance obligations within energy supply contracts in accordance with Paragraph b16.

Supplementary information continued

S2. Summary of significant accounting policies

Energy services provided to business and residential customers

Energy services relate to the installation, repair and maintenance of central heating, ventilation and air conditioning systems.

In the UK, delivery of an item is considered a separate performance obligation to the installation of the item, both satisfied at a point in time. Delivery is the point at which control passes to the customer as the customer takes physical possession of the asset. It is also the point at which the Group has the right to consideration. Delivery and installation usually occur at the same point in time and consequently revenue is recognised for both performance obligations simultaneously.

Certain heating, ventilation and air conditioning (HVAC) system installations in North America are considered to be a single performance obligation satisfied over time, representing the Group's promise to deliver to the customer a functioning HVAC system. Revenue is recognised on an input basis with reference to costs incurred.

Sales of LNG

Revenue arising from sales of LNG is recognised when control of the commodity passes to the counterparty, with each cargo representing a separate performance obligation satisfied at a point in time.

Sales of own gas and liquid production

Revenue arising from the sale of produced gas is recognised in a manner consistent with energy supply contracts with the revenue recognition profile reflecting the supply of gas to the customer. In respect of oil sales, each barrel of oil is considered a separate performance obligation satisfied at a point in time – on delivery.

The rights and obligations identifiable within a contract where the Group holds sellers' nomination rights are considered to be enforceable from inception of the contract. The transaction price for the contract will include variable consideration based on forecast production and market prices. The point at which the performance obligation is satisfied and revenue recognised is the point at which control of the commodity passes to the customer according to the contractual trading terms, usually on shipment or delivery to a specified location.

Revenue arising from contracts outside the scope of IFRS 15

Revenue from sources other than the Group's contracts with customers is recognised in accordance with the relevant standard, as detailed below:

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Power generation: revenue is recognised on the basis of power supplied during the year.

Amounts paid in advance are treated as deferred income, with any amounts in arrears recognised as accrued income.

Cost of sales

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

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

Cost of sales within power generation businesses includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

Re-measurement and settlement of energy contracts

Re-measurement and settlement of energy contracts includes both realised (settled) commodity sales and purchase contracts in the scope of IFRS 9, as well as unrealised (fair value changes) on active contracts, as detailed further in note 2.

Financing costs

Financing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

S2. Summary of significant accounting policies

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency of the relevant entity at the rate of exchange ruling at the balance sheet date and exchange movements included in the Group Income Statement for the period.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the date of the initial transaction.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, joint ventures and associates are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The monthly results of these (generally foreign) subsidiary undertakings, joint ventures and associates are translated into pounds sterling each month at the average rates of exchange for that month. The closing exchange rates, and the average of the rates used to translate the results of foreign operations to pounds sterling are shown below.

	Closing rate at 31 December		Average rate for the year ended 31 December	
Exchange rate per pounds sterling (£)	**2021**	2020	**2021**	2020
US dollars	**1.35**	1.37	**1.37**	1.29
Canadian dollars	**1.71**	1.74	**1.72**	1.73
Euro	**1.19**	1.12	**1.16**	1.13
Norwegian krone	**11.93**	11.72	**11.85**	12.13
Danish krone	**8.85**	8.31	**8.65**	8.42

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in other comprehensive income. In the event of the disposal of a non-sterling functional currency subsidiary, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal. Where the Group utilises net investment hedging, changes in the fair value of the hedging instrument are recognised in equity and remain there until the disposal of the specific, related investments, at which point the gains and losses are recycled to profit or loss. The Group previously employed net investment hedging but ceased in 2009, with historic hedging gains and losses remaining in equity until the disposal of the related investment. During 2020 the Group recommenced net investment hedging in respect of the US dollar functional currency subsidiaries in its Direct Energy business up until the date of disposal in January 2021.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 71 to 81, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

The majority of the share-based payment charge arises from the On Track Incentive Plan. This scheme is applicable to senior executives, and senior and middle management. Shares issued under the scheme vest subject to continued employment within the Group in two stages (half after two years and the other half after three years). Employees leaving prior to the vesting date will normally forfeit their rights to unvested share awards. The fair value of the awards is measured using the market value at the date of grant.

More information is included in the Remuneration Report on pages 71 to 81.

Supplementary information continued

S2. Summary of significant accounting policies

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. The Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interests and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is not recognised separately, but is shown under 'Interests in joint ventures and associates' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

Acquisitions of joint operations that meet the definition of a business as defined in IFRS 3 are accounted for as business combinations.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

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

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

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

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

The useful economic lives for the principal categories of intangible assets are as follows:

Customer relationships and other contractual assets	Up to 20 years
Strategic identifiable acquired brands	Indefinite
Application software	Up to 15 years

Strategic identifiable acquired brands are deemed to have indefinite lives where evidence suggests that the brand will generate net cash inflows for the Group for an indefinite period.

Cloud computing arrangements

The Group has a number of contracts for Software as a Service (SaaS) and Platform as a Service (PaaS) Cloud Computing Arrangements. These contracts permit the Group to access vendor-hosted software and platform services over the term of the arrangement. The Group does not control the underlying assets in these arrangements and costs are expensed as incurred.

The Group also incurs implementation costs in respect of these contracts. Implementation costs are capitalised as intangible assets where costs meet the definition and recognition criteria of an intangible asset under IAS 38. Such costs typically relate to software coding which is capable of providing benefit to the Group on a standalone basis. Other implementation costs, primarily relating to the configuration and customisation of the Cloud software solution, are assessed to determine whether the implementation activity relating to these costs is distinct from the Cloud Arrangement, in which case costs are expensed as the activity occurs. If the configuration and customisation costs relate to activity which is integral to the Cloud Arrangement such that the activity is received over the term of the Cloud Arrangement, costs are recognised as a prepayment and expensed over the term of the Cloud Arrangement.

S2. Summary of significant accounting policies

UK & EU Emissions Trading Scheme

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Group Income Statement. The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits.

Renewable certificates

The Group purchases renewable certificates both on a standalone basis, and through Power Purchase Agreements. The main types of renewable certificates acquired are Renewable Energy Guarantees of Origin (REGOs) which are certificates issued by Ofgem certifying that electricity has been produced from renewable sources, Renewable Obligation Certificates (ROCs) which are issued to accredited generators for the eligible renewable electricity they generate and Guarantees of Origin (GoOs) which are the EU equivalent of REGOs. The Group uses renewable certificates to meet their obligations under a number of Ofgem schemes, namely the Feed-in Tariff (FIT), the Contracts for Difference (CFD), the Fuel Mix Disclosure (FMD) and the Renewables Obligation (RO) schemes.

Purchased renewable certificates are recognised initially at cost within intangible assets. A liability for the RO is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received. The Group also recognises supplier obligations for CFD and FIT schemes; renewable certificates are used to offset these liabilities.

Cash flows relating to renewable obligation certificates and similar schemes are recognised within cash flows from operating activities.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditures associated with an exploration well, including acquisition costs related to exploration and evaluation activities, are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure is transferred to PP&E. If the prospects are subsequently determined to be unsuccessful, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared annually on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

The Group's joint ventures and associates (as defined in note 6) are accounted for using the equity method.

The Group's interests in joint operations (gas and oil exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the gas and oil fields that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not as principal as the contracts entered into presents gross liabilities and gross receivables of joint operations (including amounts due to or from non-operating partners) in the Group Balance Sheet in accordance with the netting rules of IAS 32: 'Financial instruments – presentation'.

Property, plant and equipment

PP&E is included in the Group Balance Sheet at cost, less accumulated depreciation and any provisions for impairment.

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 is expensed as incurred.

Supplementary information continued

S2. Summary of significant accounting policies

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), 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. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	5 to 20 years
Equipment and vehicles	3 to 10 years
Power generation assets	Up to 30 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.

Impairment assumptions

The Group tests the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets) for impairment at least annually. Interests in joint ventures and associates and exploration assets are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Further information on the assumptions used in the VIU calculations and FVLCD calculations that resulted in impairment or impairment reversals during the year can be found in note 7.

VIU – Key assumptions used

Pre-tax cash flows used in the VIU calculations are derived from the Group's Board-approved business plans, and assumptions specific to the nature and life of the asset. The Group's business plans and assumptions are based on past experience and adjusted to reflect market trends, economic conditions and key risks. Commodity prices used in the planning process are based in part on observable market data and in part on estimates. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(a) VIU – Growth rates and discount rates

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

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are shown below.

2021	British Gas %	Centrica Business Solutions Energy Supply %	Bord Gáis Energy %	North America Home (i) %	North America Business (i) %	Centrica Home Solutions %	Centrica Business Solutions (turbines/engines/ battery/solar) (ii) %	Energy Marketing & Trading %	Nuclear (ii) %
Growth rate to perpetuity (including inflation)	**2.0**	**2.0**	**1.5**	**N/A**	**N/A**	**2.0**	**N/A**	**2.0**	**N/A**
Pre-tax discount rate	**8.0**	**8.7**	**7.1**	**N/A**	**N/A**	**8.0**	**6.7/5.3** (iii)	**8.7**	**14.7**

2020	British Gas %	Centrica Business Solutions Energy Supply %	Bord Gáis Energy %	North America Home (i) %	North America Business (i) %	Centrica Home Solutions %	Centrica Business Solutions (turbines/engines/ battery) (ii) %	Energy Marketing & Trading %	Nuclear (ii) %
Growth rate to perpetuity (including inflation)	1.4	1.4	0.8	N/A	N/A	1.4	N/A	1.4	N/A
Pre-tax discount rate	7.4	7.4	6.9	N/A	N/A	11.1	8.0	8.6	8.0

(i) In 2020, the impairment review for Direct Energy (North America Business and North America Home) had been performed using the FVLCD methodology, based on the agreed sales consideration for the business. No impairment was required.

(ii) Cash flows arising after the plan period have been derived from forecasts to the end of the asset lives. Due to the nature of these finite-lived assets this provides a more appropriate valuation in later years.

(iii) Battery and solar discount rates respectively.

S2. Summary of significant accounting policies

(b) VIU – Inflation rates

Inflation rates used in the business plan were based on a blend of publicly available inflation forecasts and range from 1.5% to 2.0%.

(c) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are gross margin, revenues and operating costs. These assumptions are tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
All – base assumptions	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and cost of goods inflation. For the Services business, future sales and related gross margins are based on planned future product sales and contract losses based upon past performance and future expectations of the competitive environment.	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. Adjusted for: growth forecasts which are based on sales and marketing activity, recent customer acquisitions and the current economic environment in the relevant geography. Gas and electricity revenues based on forward market prices. Market share: percentage immediately prior to business plan.	Wages: projected headcount in line with expected efficiency programme. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding realised cash losses have been updated to reflect the current environment.
Energy Marketing & Trading	Existing and new markets: management's estimate of future trading performance.	As above.	Future development: increase in costs to support growth forecasts, adjusted for planned business process efficiencies.
Centrica Business Solutions (turbines/ engines/battery/solar)	Based on forecast revenues, operations and maintenance costs, grid network and balancing system charges for the asset life.	Based on forward and contracted prices for commodity, capacity market and grid ancillary service contracts for the asset life.	Based on run-rate and forecast changes, including expected inflation for the asset life.

Overlift and underlift

Off-take arrangements for gas and oil produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables or trade and other receivables respectively, and is measured at market value, with movements in the period recognised within cost of sales.

Supplementary information continued

S2. Summary of significant accounting policies

Leases

The Group assesses its contractual arrangements to determine whether they are or contain leases based on whether they convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group 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 PP&E. 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.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The liabilities for the majority of the Group’s lease portfolio are calculated using the incremental borrowing rate. This rate is calculated on a lease-by-lease basis, taking into account the credit rating of the Group at the inception of the lease and the lease term. The credit adjustment used in this calculation is modified to reflect the security implicit in a lease arrangement based on the specific class of asset being leased.

Lease 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, the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early. When considering whether the Group is reasonably certain to exercise extension or termination options, various factors are considered, such as the level of lease payments relative to the market rate, the importance of the specific asset to the Group’s operations and the period remaining until the option becomes exercisable. Such judgements are reconsidered when there is a significant event or change of circumstances that is within the control of the Group. 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, lease-term extension or termination option. Cash flows reflecting payment of capital and interest on leases are shown in cash flows from financing activities.

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 Group 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.

The Group holds interests in a number of joint operations within its exploration and production business. The Group has applied judgement in identifying the customer where a lease arrangement is to be used by a jointly controlled operation.

If the leased asset is dedicated to a specific joint operation and its usage is dictated by the joint operating agreement, the joint operation is deemed the customer. In such instances:

- When the Group signs a lease agreement on behalf of a joint operation and has primary responsibility for payments to the lessor, the Group recognises 100% of the lease liability and a right-of-use asset on its balance sheet. When the partner is obliged to reimburse the Group for its share of lease payments, a sub-lease receivable is recognised and an equal adjustment to the right-of-use asset is made.
- When the partner has the primary responsibility for payments to the lessor and the Group is obliged to reimburse its share of the lease payments, a lease liability due to the partner and equal right-of-use asset are recognised.

If the leased asset is not dedicated to a specific joint operation or its usage is not dictated by the joint operating agreement of a joint operation to which it is dedicated, the signatory to the lease agreement is deemed the customer. If this is the Group, the lease liability and right-of-use asset are recognised in full. If it is the partner, no lease liability or right-of-use asset is recognised.

S2. Summary of significant accounting policies

Inventories

Inventories of finished goods are valued at the lower of cost (using weighted-average cost) or estimated net realisable value after allowance for redundant and slow-moving items. The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Inventory of gas in storage is valued either on a weighted-average cost basis or at fair value less any costs to sell depending on the business model for holding the inventory. Changes in fair value less costs to sell are recognised in the Group Income Statement.

Oil inventory is measured at fair value, being the spot price at the balance sheet date.

Securities

The Group holds debt and equity securities predominantly in respect of the Centrica Unfunded Pension Scheme (see note 22). Debt securities are required to be measured at fair value through profit or loss under IFRS 9, as the assets are not held solely for the purpose of collecting contractual cash flows related to principal and interest. The Group has elected to recognise the changes in fair value of the equity securities in other comprehensive income. The Group has also elected to recognise the changes in fair value of certain equity trade investments held by Centrica Innovations in other comprehensive income. Further details can be found in the accounting policy on financial instruments.

Government Grants

Government grants are transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government assistance is designed to provide an economic benefit that is specific to an entity qualifying under certain criteria. The Group recognises government grants only when there is reasonable assurance that the Group will comply with the conditions attached to them and the grant will be received. Government grants are recognised in profit and loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to assets are deducted from the carrying amount of the asset.

In 2021 the Group recognised a SoLR receivable in relation to amounts recoverable under the Last Resort Supplier Payment mechanism administered by Ofgem, a government body, which is detailed in note 1. This process allows suppliers, appointed as Supplier of Last Resort, to recover costs reasonably incurred in supplying affected customers. The receivable recognised reflects amounts incurred primarily on commodity costs up to the reporting date which are recoverable under the LRSP claim. The associated credit has been recognised in cost of sales and operating costs.

Decommissioning costs

A provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields and power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. The asset is subject to impairment review as detailed above. Changes in estimates and discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The discount rate used to calculate the provision remains at 0% as discussed in note 3. The unwinding of the discount on the provision is included in the Group Income Statement within financing costs.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and the Directors are committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post-employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in other comprehensive income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time, is recognised in the Group Income Statement within net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

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

Supplementary information continued

S2. Summary of significant accounting policies

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Group Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract. In 2021, the Group has recognised a material onerous supply contract provision as the future costs to fulfil customer contracts on a current market price basis will exceed the charges recoverable from customers, because the associated hedging gains have already been recognised in the Group Income Statement. Further detail relating to the key assumptions and sources of estimation uncertainty are provided in notes 1 and 3.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign 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 balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice as well as the rules and regulations of the relevant tax authority in the jurisdiction of the dispute. Often the Group is unable to predict whether an uncertain tax treatment will be accepted by the relevant authority. In such instances the effects of uncertainty are reflected in management's assessment of the most likely outcome of each issue, as reviewed and updated on a regular basis. Each item is considered separately and on a basis that provides the better prediction of the outcome, unless the Group determines that it is appropriate to group certain items for consideration. See note 9 for further details on uncertain tax provisions.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill, 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 Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on 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 is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

S2. Summary of significant accounting policies

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade 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 (taking into account the Group's business model, which is to collect the contractual cash flows owing) less an allowance for impairment losses. Balances are written off when recoverability is assessed as being remote. If collection is expected in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

(b) Trade 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. If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. 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 reacquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions and money market deposits, 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. Cash and cash equivalents are presented net of outstanding bank overdrafts where there is a legal right of set off and, for the Group's cash pooling arrangements, to the extent the Group expects to settle its subsidiaries' year-end account balances on a net basis.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings with banks and similar institutions are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are hedged items 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 Group Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Financial instruments at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are equity instruments that the Group has elected to recognise the changes in fair value of in other comprehensive income. They are recognised initially at fair value in the Group Balance Sheet and are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in other comprehensive income. Accrued interest or dividends arising on these financial assets are recognised in the Group Income Statement.

If the Group assesses the need to recognise a loss allowance on a financial asset carried at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income; however, the recognition of a loss allowance does not impact the carrying value of the asset on the Group's Balance Sheet.

Cumulative gains and losses on equity instruments at fair value through other comprehensive income are not recycled to the Group Income Statement.

(g) Financial assets at fair value through profit or loss

The Group previously held investments in gilts which it designated at fair value through profit or loss in order to eliminate asymmetry arising from the measurement of an index-linked derivative. These gilts matured during 2020. Other debt instruments and money market funds (which are classified as cash equivalents) are required to be measured at fair value through profit or loss under IFRS 9, as the assets are not held solely for the purpose of collecting contractual cash flows related to principal and interest. Both mandatory and designated instruments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within investment income or financing costs.

Supplementary information continued

S2. Summary of significant accounting policies

(h) Derivative financial instruments

The Group 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 Group's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IFRS 9. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IFRS 9 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IFRS 9 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rates, foreign exchange and energy price risks, arising in the normal course of business. Where considered appropriate, the Group may use weather derivatives to protect against earnings volatility arising from unseasonal weather variations. The use of such derivatives did not have a material financial statement impact in 2021 or 2020. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 38 to 43 and in note S3.

The accounting treatment of 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 Group in line with the Group's risk management policies and is in accordance with established guidelines. Certain derivative instruments used for hedging purposes are designated in hedge accounting relationships as described by IAS 39 (the Group has not applied the hedge accounting requirements of IFRS 9). In order to qualify for hedge accounting, the effectiveness of the hedge must be reliably measurable and documentation describing the formal hedging relationship must be prepared at the point of designation. The hedge must be highly effective in achieving its objective. The Group also holds derivatives that are used for hedging purposes which are not designated in hedge accounting relationships 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 there is a currently enforceable legal right of set-off, and the intention to net settle the derivative contracts is present.

The Group 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, the inputs to which include data that 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 Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Group 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 cash flow or net investment hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Group Income Statement and are included within gross profit or investment income and financing costs. Where derivatives qualify for cash flow or net investment hedging, changes in fair value arising from the effective element of the hedge are recognised initially in the Group Statement of Comprehensive Income and are recycled to the Group Income Statement when the hedged item impacts profit or loss. Further details on the treatment of energy derivatives in the Group Income Statement is provided in note 2. Further detail on the treatment of derivatives in hedging relationships is provided in note S5.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract that significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement. Gains and losses arising from changes in the fair value of energy derivative contracts are recognised within 'Re-measurement and settlement of energy contracts' in the Group's results for the period under IFRS.

S2. Summary of significant accounting policies

(i) Hedge accounting

The Group continues to apply the hedge accounting requirements of IAS 39 and has not adopted IFRS 9 hedge accounting.

For the purposes of hedge accounting, hedges are classified as either net investment hedges, fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

(j) Impairment of financial assets

In accordance with IFRS 9, the Group has applied the expected credit loss model to financial assets measured at amortised cost and fair value through other comprehensive income.

For trade receivables and contract assets the simplified approach is taken and the lifetime expected credit loss provided for.

For all other in-scope financial assets at the balance sheet date either the lifetime expected credit loss or a 12-month expected credit loss is provided for, depending on the Group's assessment of whether the credit risk associated with the specific asset has increased significantly since initial recognition. As the Group's financial assets are predominantly short term (less than 12 months), the impairment loss recognised is not materially different using either approach. Further details of the assumptions and inputs used to calculate expected credit losses are shown in note 17.

Nuclear activity

The Group's investment in Lake Acquisitions Limited ('Nuclear') is accounted for as an associate. The following accounting policies are specific to this nuclear activity.

(a) Fuel costs – nuclear front end

Front-end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services, and fuel element fabrication. All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced gas-cooled reactors (AGR)

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back-end fuel costs comprise of a loading-related cost per tonne of uranium and a rebate/surcharge to this cost which is dependent on the out-turn market electricity price and the amount of electricity generated from AGR stations in the year. These costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised water reactor (PWR)

Back-end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back-end fuel costs are capitalised into inventory on loading and are charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear PP&E – depreciation

The majority of the cost of the nuclear fleet is depreciated from the date of the Group acquiring its share of the fleet on a straight-line basis, with remaining depreciable periods currently of up to 14 years.

Other expenditure including amounts spent on major inspections and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is 2 to 3 years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, the former British Energy Group agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables

The UK Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back-end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities (apart from a small timing difference due to timing of receipts from NLF).

(f) Nuclear liabilities

Nuclear liabilities represent provision for liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown

Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are fully provided for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long-term liability.

Supplementary information continued

S3. Financial risk management

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

Further detail on the Group's overall risk management processes is included within the Strategic Report – Principal Risks and Uncertainties on pages 38 to 43.

Commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes.

Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy. Downstream customer credit risk management is carried out in accordance with appropriate group wide and individual business unit credit policies.

Market risk management

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

(a) Commodity price risk management

The Group is exposed to commodity price risk in its energy procurement and supply activities, production, generation and trading operations and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. The Group uses Profit at Risk (PaR) limits to control exposures to market prices. These are complemented by other limits including Value at Risk (VaR), volumetric or stop-loss limits to control risk around trading activities.

(i) Energy price exposed business activities

The Group's price exposed business activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions primarily transacted with the intent of securing gas and power for the Group's supply customers, from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group's commodity price risk exposure within its business activities is driven by the cost of procuring gas and electricity to serve its supply customers and selling gas, oil and electricity from its upstream production and generation, which varies with wholesale commodity prices. The primary risk is that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group's supply activities are also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including the weather, energy consumption changes, customer attrition and the economic climate. There is also risk associated with ensuring that there is sufficient commodity available to secure supply to customers. The Group's production and generation activities are also exposed to volumetric risk in the form of uncertain production profiles.

In order to manage the exposure to market prices associated with the Group's business operations the Group uses a specific set of risk limits (including VaR and PaR) established by the Board, and sub-delegated downwards through the delegation lines to the commercial leaders.

PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, regular stress and scenario tests are performed to evaluate the impact on the portfolio of possible substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy price exposed business portfolio. Only certain of the Group's energy contracts constitute financial instruments under IFRS 9 (see note S6).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement and sales contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy price exposed business activities to commodity price risk according to IFRS 7: 'Financial instruments: disclosures'. This is because energy contracts that are financial instruments under IFRS 9 are accounted for on a fair value basis and changes in fair value immediately impact profit. Conversely, energy contracts that are not financial instruments under IFRS 9 are accounted for as executory contracts and changes in fair value do not immediately impact profit and, as such, are not exposed to commodity price risk as defined by IFRS 7. So, whilst the PaR or VaR associated with energy procurement and supply contracts that are outside the scope of IFRS 9 are monitored for internal risk management purposes, only those energy contracts within the scope of IFRS 9 are within the scope of the IFRS 7 disclosure requirements.

S3. Financial risk management

(ii) Proprietary energy trading

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

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2021 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation. VaR assumes that historical price behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure). IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes items that are not financial instruments, such as the Group's net investments in international operations as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The primary functional currencies remain pounds sterling in the UK, Norwegian krone in Norway, Danish krone in Denmark and euros in the Netherlands and the Republic of Ireland. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement, production and generation activities, where many transactions are denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt or entered into foreign currency loans, primarily in US dollars, euros and Japanese yen.

It is the Group's policy to hedge material transactional exposures using derivatives (either applying formal hedge accounting or economic hedge relationships) to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2021, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2020: £nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where appropriate, subject to certain parameters, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset carrying values in the Group's Financial Statements. The translation hedging programme including the potential cash impact is managed by the Group Treasury function and monitored by the Chief Financial Officer.

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed-rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

The return generated on the Group's cash balance is also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

(d) Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2021, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2021, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

Supplementary information continued

S3. Financial risk management

The sensitivity analysis has been prepared based on 31 December 2021 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2021 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IFRS 9. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced. This is because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group.

(i) Transactional currency risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in foreign exchange rates. The Group deems 10% movements to US dollar and euro currency rates relative to pounds sterling to be reasonably possible.

The material impact of such movements on profit and equity, both before and after taxation, are as follows:

Incremental profit/(loss)	**2021 Impact on profit £m**	2020 Impact on profit £m
US dollar – increase/(decrease)	**86/(117)**	76/(105)
Euro – increase/(decrease)	**111/(113)**	32/(35)

All other currency sensitivities are not material.

(ii) Interest rate risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK, US and euro interest rates to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial.

(iii) Commodity price risk – non proprietary

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

	2021		2020	
Energy prices	**Base price (i)**	**Reasonably possible change in variable (ii) %**	Base price (i)	Reasonably possible change in variable (ii) %
UK gas (p/therm)	**105**	**+/-58**	44	+/-22
European gas (p/therm)	**103**	**+/-58**	44	+/-22
UK power (£/MWh)	**115**	**+/-17**	53	+/-17
UK emissions (€/tonne)	**82**	**+/-7**	33	+/-7
UK oil (US$/bbl)	**71**	**+/-7**	50	+/-15
North American gas (US cents/therm)	**34**	**+/-13**	26	+/-4
North American power (US$/MWh)	**–**	**–**	25	+/-6

Incremental profit/(loss)	**2021 Impact on profit (ii) £m**	2020 Impact on profit (ii) £m
UK gas price – increase/(decrease)	**1,076/(1,053)**	45/(45)
UK power price – increase/(decrease)	**201/(225)**	59/(58)
European gas price – (decrease)/increase	**(690)/691**	(14)/14
Other UK energy prices (oil and emissions) – (decrease)/increase	**(22)/22**	(7)/5
UK and European energy prices (combined) – increase/(decrease)	**565/(565)**	83/(84)
North American energy prices (combined) – increase/(decrease)	**34/(34)**	304/(304)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for energy prices.

The impact on other comprehensive income of such price changes is immaterial.

S3. Financial risk management

(iv) Commodity price risk – proprietary trades

As at 31 December 2021 the VaR associated with proprietary trading was £13 million (2020: £5 million) This represents the statistical downside risk associated with the proprietary trade and associated hedging positions. The changes in the year only relate to changes in commodity prices.

The impacts of the same reasonably possible changes in (iii) applied to level 3 proprietary trades are as follows:

Incremental profit/(loss)	**2021 Impact on profit (i) £m**	2020 Impact on profit (i) £m
Level 3 proprietary trades – increase/(decrease) (ii)	**562/(503)**	104/(101)

(i) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for energy prices.
(ii) The level 3 proprietary financial instruments' sensitivity has been valued in Secure Environment and excludes associated hedges which would mitigate this impact.

Additional sensitivities have been performed on total proprietary trades and associated hedges assuming a +/- 10% and +/- 25% change in prices in the VaR period. These have resulted in a profit impact of +/-£9 million and +/- £3 million respectively.

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract.

The Group continually reviews its rating thresholds for relevant counterparty credit limits and updates these as necessary, based on a consistent set of principles. It continues to operate within its limits. In respect of trading activities for both the US and Europe there is an effort to maintain a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. The maximum exposure to credit risk for financial instruments at fair value is equal to their carrying value. Gross amounts are shown by counterparty credit rating in the table below. Further details of other collateral and credit security not offset against these amounts is shown in note S6.

	2021				2020 (i)			
	Financial assets at amortised cost		**Financial assets at fair value**		Financial assets at amortised cost		Financial assets at fair value	
31 December	**Receivables including treasury, trading and energy procurement counterparties (ii) £m**	**Cash and cash equivalents £m**	**Cash and cash equivalents £m**	**Derivative financial instruments with positive fair values £m**	Receivables including treasury, trading and energy procurement counterparties (ii) £m	Cash and cash equivalents £m	Cash and cash equivalents £m	Derivative financial instruments with positive fair values £m
AAA to AA	**444**	**–**	**3,670**	**52**	71	–	1,049	13
AA– to A–	**615**	**1,278**	**–**	**2,128**	320	844	–	827
BBB+ to BBB–	**1,249**	**60**	**–**	**4,453**	499	8	–	543
BB+ to BB–	**1,051**	**–**	**–**	**629**	63	–	–	273
B+ or lower	**17**	**–**	**–**	**128**	17	–	–	38
Unrated (iii)	**3,081**	**52**	**–**	**160**	3,698	26	–	55
	6,457	**1,390**	**3,670**	**7,550**	4,668	878	1,049	1,749

(i) Included above in 2020 was £1,546 million of receivables, £107 million of cash and cash equivalents and £159 million of derivative financial instruments included in assets held for sale.
(ii) The Group holds a provision of £633 million (2020: £673 million) against receivables, including amounts presented as part of disposal groups classified as held for sale. The significant majority of this provision is held against amounts due from unrated counterparties. Further analysis of past due trade receivables may be found at note 17.
(iii) The unrated counterparty receivables primarily comprise amounts due from downstream customers, subsidiaries of rated entities, exchanges or clearing houses.

Supplementary information continued

S3. Financial risk management

Details of how credit risk is managed across the asset categories are provided below:

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist (see note S6 for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit.

The vast majority of group credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or financial institutions together with smaller exposures to commodity traders and small independent renewable producers. The impairment considerations of IFRS 9 are applicable to financial assets arising from treasury, trading and energy procurement activities that are carried at amortised cost and equity instruments that are carried at fair value through other comprehensive income (FVOCI). Equity instruments measured at FVOCI are not material for further disclosure.

Included in the table above within receivables including treasury, trading and energy procurement counterparties is £3,643 million (2020: £918 million) of treasury, trading and energy procurement assets. The Group's risk assessment procedures and counterparty selection process ensure that the credit risk on this type of financial asset is always low at initial recognition.

Included within the table above is information about the exposure to credit risk arising from only certain of the Group's energy procurement contracts – those in the scope of IFRS 9. Whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IFRS 9 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Trade receivables and contract assets

The simplified approach of measuring lifetime expected credit losses has been applied to trade receivables and contract asset balances, which are the focus of this disclosure. Therefore, consideration of the significance of any change in credit risk since initial recognition for the purpose of applying this model is not required for any material component of the receivables balance.

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit to ensure that there is sufficient liquidity headroom at all points in the seasonal trading cycle of the business. See note 24 for further information.

S3. Financial risk management

Maturity profiles

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

Due for payment 2021	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(807)	(77)	(22)	(13)	(8)	(13)
Gross energy procurement contracts and other derivative buy trades carried at fair value (ii)	(6,118)	(5,063)	(3,342)	(1,821)	(42)	(122)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(4,068)	(985)	(130)	(22)	(3)	(54)
Inflow	4,500	990	130	22	1	96
Financial liabilities within provisions	(2,609)	(20)	(13)	(9)	(8)	(27)
Borrowings (bank loans, bonds, overdrafts and interest)	(1,141)	(385)	(154)	(592)	(182)	(3,673)
Leases: (iii)						
Minimum lease payments	(103)	(68)	(59)	(55)	(47)	(48)
Capital elements of leases	(102)	(66)	(56)	(52)	(46)	(42)

Due for payment 2020	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis (i)	(237)	(35)	(11)	(6)	(6)	(14)
Gross energy procurement contracts and other derivative buy trades carried at fair value (i)	(3,045)	(2,056)	(1,769)	(1,643)	(1,055)	(352)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(5,701)	(773)	(158)	(27)	(2)	(56)
Inflow	5,857	771	156	24	–	102
Financial liabilities within provisions	(120)	(32)	(16)	(13)	(13)	(27)
Borrowings (bank loans, bonds, overdrafts and interest)	(733)	(467)	(383)	(153)	(592)	(4,539)
Leases: (iii)						
Minimum lease payments	(186)	(108)	(76)	(56)	(50)	(86)
Capital elements of leases	(179)	(104)	(74)	(53)	(48)	(82)

(i) In 2020, included within contractual cash flows for derivatives to be settled net, gross energy procurement contracts and other derivative buy trades, and financial liabilities within provisions were £142 million, £1,854 million and £28 million respectively that relate to the Direct Energy disposal group. Of these amounts, £109 million, £956 million and £18 million were contractually due within 12 months of the reporting date. The disposal of Direct Energy completed on 5 January 2021.

(ii) Proprietary energy trades are excluded from this maturity analysis as the Group does not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date. See note 19 for further details.

(iii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges. Lease liabilities of £35 million relating to the Direct Energy business were included in liabilities held for sale in 2020.

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Supplementary information continued

S4. Other equity

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Financial asset at FVOCI reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Merger, capital redemption and other reserves £m	Total £m
1 January 2020	7	(196)	(987)	4	(37)	73	527	(609)
Actuarial loss	–	–	(501)	–	–	–	–	(501)
Employee share schemes:								
Exercise of awards	–	–	–	–	36	(46)	–	(10)
Value of services provided	–	–	–	–	–	52	–	52
Purchase of own shares	–	–	–	–	(30)	–	–	(30)
Impact of cash flow and net investment hedging	11	50	–	–	–	–	–	61
Taxation on above items	(2)	(10)	122	–	–	–	–	110
Share of other comprehensive income of joint ventures and associates, net of taxation	–	–	58	–	–	–	–	58
Exchange differences on translation of foreign operations	–	(50)	–	–	–	–	–	(50)
Exchange differences reclassified to Group Income Statement on disposal	–	8	–	–	–	–	–	8
Revaluation of FVOCI securities	–	–	–	(4)	–	–	–	(4)
31 December 2020	16	(198)	(1,308)	–	(31)	79	527	(915)
Actuarial gain	–	–	218	–	–	–	–	**218**
Employee share schemes:								
Exercise of awards	–	–	–	–	13	(49)	–	**(36)**
Value of services provided	–	–	–	–	–	12	–	**12**
Impact of cash flow and net investment hedging	(7)	(49)	–	–	–	–	–	**(56)**
Taxation on above items	1	9	(74)	–	–	–	–	**(64)**
Share of other comprehensive income of joint ventures and associates, net of taxation	–	–	152	–	–	–	–	**152**
Exchange differences on translation of foreign operations	–	(46)	–	–	–	–	–	**(46)**
Exchange differences reclassified to Group Income Statement on disposal	–	(20)	–	–	–	–	–	**(20)**
Revaluation of FVOCI securities	–	–	–	3	–	–	–	**3**
31 December 2021	**10**	**(304)**	**(1,012)**	**3**	**(18)**	**42**	**527**	**(752)**

Merger, capital redemption and other reserves

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

On 8 December 2017, the Group's existing exploration and production business was combined with that of Bayerngas Norge AS to form the Spirit Energy business. The Group acquired 69% of the Spirit Energy business and Bayerngas Norge's former shareholders acquired 31%. The non-controlling interest established on acquisition has been based on its share of the carrying value of the combined business, with the other reserve representing the difference between the fair value and this carrying value.

In accordance with the Companies Act, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. Up to 31 December 2021 the cumulative nominal value of shares repurchased and subsequently cancelled was £28 million (2020: £28 million).

Own shares reserve

The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve

Treasury shares are acquired equity instruments of the Company.

S5. Hedge accounting

The Group primarily applies hedge accounting to address interest rate and foreign currency risk on borrowings.

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were as follows:

		2021			2020		
31 December	Hedge	Assets £m	Liabilities £m	Change in fair value £m	Assets £m	Liabilities £m	Change in fair value £m
Interest rate risk	Fair value	67	–	(95)	182	(1)	93
Foreign exchange risk	Cash flow hedge	33	(7)	(44)	180	(9)	44
Foreign exchange risk	Net investment hedge	–	–	2	24	–	50

2021	Hedge	Timing of nominal amount	Average rate	Nominal value	Hedged item	Change in fair value of hedged item in year £m	Cumulative amount of fair value hedge adjustments on hedged item £m	Accumulated gains/(losses) in equity (i) £m
Interest rate risk	Fair value	2022-2032	Fixed to floating at LIBOR/US IBOR + 1%-5%	£50 million-£550 million, $250 million	Bonds (ii)	95	(70)	N/A
Foreign exchange risk	Cash flow hedge	2021-2032	GBP to Euro at 1.356	€50 million, €750 million	Euro bonds	24	N/A	32
	Cash flow hedge	2036-2038	GBP to Yen at 145.43	¥20 billion	Yen bank loans	14	N/A	(21)
Foreign exchange risk	Net investment hedge/Cash flow hedge (iii)	2021	GBP to USD at 1.34	$2.3 billion	Carrying value of net assets of subsidiary/disposal proceeds	4	N/A	–

2020	Hedge	Timing of nominal amount	Average rate	Nominal value	Hedged item	Change in fair value of hedged item in year £m	Cumulative amount of fair value hedge adjustments on hedged item £m	Accumulated gains/(losses) in equity (i) £m
Interest rate risk	Fair value	2022-2032	Fixed to floating at LIBOR/US IBOR + 1%-5%	£50 million-£550 million, $250 million	Bonds (ii)	(93)	(164)	N/A
Foreign exchange risk	Cash flow hedge	2021-2032	GBP to Euro at 1.356	€50 million, €750 million	Euro bonds	(37)	N/A	22
	Cash flow hedge	2036-2038	GBP to Yen at 151.49	¥20 billion	Yen bank loans	(2)	N/A	(9)
Foreign exchange risk	Net investment hedge/Cash flow hedge (iii)	2021	GBP to USD at 1.34	$2.3 billion	Carrying value of net assets of subsidiary/disposal proceeds	(55)	N/A	55

(i) In the years presented all amounts related to continuing cash flow hedge relationships.
(ii) The carrying amount of bonds designated as hedged items in hedging relationships is disclosed in note 24.
(iii) The Group recommenced net investment hedging in 2020 in respect of the US dollar subsidiaries of its Direct Energy business. During 2020 the Group also used cash flow hedging to protect against exchange risk on the sterling value of the US dollar proceeds received on completion of the disposal of that business in 2021. Of the total notional US dollar value hedging as at 31 December 2021, $nil related to this cash flow hedging strategy (2020: $305 million).

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Supplementary information continued

S5. Hedge accounting

Fair value hedges

A derivative is designated as a hedging instrument and its relationship to a recognised asset or liability is classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement in net finance cost. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and begins no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Impact of interest rate benchmark reform

Phase 2 of the Interest Rate Benchmark Reform became effective on 1 January 2021. Under Phase 2, to the extent that modifications are made to financial instruments that are necessary to implement Interest Rate Benchmark Reform, reliefs from the discontinuation of hedge accounting or immediate recognition of any gains or losses in the income statement on the modification of financial instruments measured at amortised cost are available on transition to alternative rates, provided that the modification is a direct consequence of the reform and the new basis for calculating cash flows is economically equivalent to the previous basis.

The Group will apply the International Swaps and Derivatives Associates (ISDA) fallback protocol to the derivative financial instruments held by the Group affected by the IBOR Reform where the interest rate benchmark is linked to GBP Libor. These instruments primarily comprise interest rate swap agreements designated in fair value hedge relationships. At 31 December 2021, the carrying value of derivative assets exposed to GBP Libor is £59 million, with a notional value of £2.1 billion. The ISDA fallback rates are derived from the Sterling Overnight Interbank Average (SONIA) rate and are calculated and published by Bloomberg. The Group determines that Phase 1 reliefs no longer apply in respect of GBP Libor – the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows ceased on 31 December 2021.

The Group has amended its hedge designation to reflect changes which are required by IBOR reform to designate movements in Bloomberg Fallback Libor as the hedged risk and to amend the description of both the hedged item and the hedging instrument to reference the alternative rate. The amendment to the hedge designation permits that the accumulated amount outstanding in the cash flow hedge reserve is deemed to be based on the Bloomberg Fallback Libor rate. The Group is permitted to designate an alternative benchmark rate as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, as the Group reasonably expects that it will meet the requirements within 24 months.

The Group also has interest rate swap agreements designated in fair value hedge relationships which are linked to USD Libor which is expected to remain in place until 2023 and uncertainty over its replacement still exists. The carrying value of derivative assets which are linked to USD Libor and which have yet to transition to an alternative benchmark interest rate is £8 million, with a notional value of £228 million.

Cash flow hedges

A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve through other comprehensive income are transferred to the Group Income Statement in the period in which the hedged item affects profit or loss. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Group Income Statement. Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging is immaterial.

Net investment hedges

Hedges of net investments in foreign operations hedge the exposure of the sterling value of the assets of foreign currency subsidiaries in the consolidated Financial Statements to changes in exchange rates. Such hedges are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. On disposal of the foreign operation, the cumulative gains or losses recognised directly in equity are transferred to the Group Income Statement. The Group initially ceased any net investment hedging activity in 2009. The Group recommenced this strategy in respect of the US dollar subsidiaries in its Direct Energy business in 2020, up until the date of disposal in January 2021. The financial instruments in this net investment hedging relationship are forward US dollar/ sterling foreign exchange contracts. No material ineffectiveness was recognised in the Group Income Statement in respect of this relationship.

S6. Fair value of financial instruments

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

(a) Fair value hierarchy

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

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

	2021				2020 (i)			
31 December	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	–	6,906	480	**7,386**	21	1,199	91	1,311
Interest rate derivatives	–	71	–	**71**	–	185	–	185
Foreign exchange derivatives	–	93	–	**93**	–	253	–	253
Debt instruments	82	–	1	**83**	84	–	–	84
Equity instruments	29	3	20	**52**	25	–	29	54
Cash and cash equivalents	–	3,670	–	**3,670**	–	1,049	–	1,049
Total financial assets at fair value	**111**	**10,743**	**501**	**11,355**	130	2,686	120	2,936
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	–	(5,662)	(290)	**(5,952)**	–	(983)	(129)	(1,112)
Interest rate derivatives	–	–	–	**–**	–	(1)	–	(1)
Foreign exchange derivatives	–	(57)	–	**(57)**	–	(55)	–	(55)
Total financial liabilities at fair value	**–**	**(5,719)**	**(290)**	**(6,009)**	–	(1,039)	(129)	(1,168)

(i) The table above includes £159 million derivative assets, £240 million derivative liabilities and £4 million equity instruments which were classified as held for sale on the Group Balance Sheet as at 2020.

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

	2021		2020 (i)	
	Financial assets £m	**Financial liabilities £m**	Financial assets £m	Financial liabilities £m
Level 3 financial instruments				
1 January	**120**	**(129)**	256	(90)
Disposal of Direct Energy	**(53)**	**20**	–	–
Total realised and unrealised gains/(losses):				
Recognised in Group Income Statement	**453**	**(181)**	(40)	(57)
Purchases, sales, issuances and settlements (net)	**2**	**–**	(79)	16
Transfer to assets held for sale	**(21)**	**–**	–	–
Transfers between Level 2 and Level 3 (ii)	**–**	**–**	(15)	1
Foreign exchange movements	**–**	**–**	(2)	1
31 December	**501**	**(290)**	120	(129)
Total gains/(losses) for the year for Level 3 financial instruments held at the end of the reporting year	**453**	**(181)**	(44)	(57)

(i) At 31 December 2020 includes £52 million of Level 3 financial assets, and £20 million of Level 3 financial liabilities that are classified as held for sale on the Group Balance Sheet.
(ii) Transfers between levels are deemed to occur at the beginning of the reporting year.

Supplementary information continued

S6. Fair value of financial instruments

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market, with the resulting market value discounted back to present value using observable yield curves.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during the year was 1% (Europe) per annum (31 December 2020 average discount rate of 1% (Europe) and 3% (North America) per annum).

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within Europe and North America. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (Europe) per annum (31 December 2020 average discount rate of 1% (Europe) and 3% (North America) per annum).

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**4**	**4**	**3**	**3**	**3**
North America (years)	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. The impact of reasonably possible changes in commodity prices on profit and loss are included in note S3. Other than commodity prices there are no other unobservable inputs which would have a material impact.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into that are within the scope of IFRS 9. The Group has numerous other commodity contracts that are outside of the scope of IFRS 9 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed into the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IFRS 9, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which have significant unobservable inputs and the fair value differs from the transaction price, a day one gain or loss will arise. These deferred gains are presented net against respective derivative assets and derivative liabilities. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group 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:

Day-one gains deferred	**2021 £m**	2020 £m
1 January	**64**	47
Disposal of Direct Energy	**(45)**	–
Net gains deferred on transactions in the year	**70**	16
Net amounts recognised in Group Income Statement	**2**	–
Exchange differences	**(1)**	1
31 December	**90**	64

S6. Fair value of financial instruments

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December		Notes	2021 Carrying value £m	2021 Fair value £m	2021 Fair value hierarchy	2020 Carrying value £m	2020 Fair value £m	2020 Fair value hierarchy
Bank loans		24(d)	**(137)**	**(173)**	**Level 2**	(144)	(195)	Level 2
Bonds	Level 1	24(d)	**(3,218)**	**(3,947)**	**Level 1**	(4,004)	(4,825)	Level 1
	Level 2	24(d)	**(106)**	**(136)**	**Level 2**	(107)	(148)	Level 2

Bank loans and borrowings

The fair values of bonds classified as Level 1 within the fair value hierarchy are calculated using quoted market prices. The fair values of Level 2 bonds and bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts and short-term loans are assumed to equal their book values due to the short-term nature of these amounts.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables, lease liabilities and provisions are estimated to approximate their carrying values.

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

31 December 2021	**Gross amounts of recognised financial instruments £m**	**Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m**	**Net amounts presented in the Group Balance Sheet £m**	**Related amounts not offset in the Group Balance Sheet (i): Financial instruments £m**	**Related amounts not offset in the Group Balance Sheet (i): Collateral £m**	**Net amount £m**
Derivative financial assets	**33,212**	**(25,662)**	**7,550**	**(810)**	**(1,185)**	**5,555**
Derivative financial liabilities	**(31,671)**	**25,662**	**(6,009)**	**810**	**888**	**(4,311)**
			1,541			**1,244**
Balances arising from commodity contracts:						
Accrued and unbilled downstream and energy income	**8,890**	**(5,443)**	**3,447**	**(242)**	**–**	**3,205**
Accruals for commodity costs	**(8,905)**	**5,443**	**(3,462)**	**242**	**–**	**(3,220)**
Cash and financing arrangements:						
Cash and cash equivalents	**5,060**	**–**	**5,060**	**(750)**	**–**	**4,310**
Bank loans and overdrafts	**(887)**	**–**	**(887)**	**750**	**–**	**(137)**
Securities	**135**	**–**	**135**	**–**	**–**	**135**

31 December 2020	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i): Financial instruments £m	Related amounts not offset in the Group Balance Sheet (i): Collateral £m	Net amount £m
Derivative financial assets	5,609	(3,860)	1,749	(266)	(68)	1,415
Derivative financial liabilities	(5,028)	3,860	(1,168)	266	56	(846)
			581			569
Balances arising from commodity contracts:						
Accrued and unbilled downstream and energy income	4,837	(2,830)	2,007	(168)	–	1,839
Accruals for commodity costs	(4,353)	2,830	(1,523)	168	–	(1,355)
Cash and financing arrangements:						
Cash and cash equivalents	1,942	(15)	1,927	(534)	–	1,393
Bank loans and overdrafts	(693)	15	(678)	534	–	(144)
Securities	138	–	138	–	–	138

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes where the offsetting Group Balance Sheet class is not included within the above table.

(ii) As at 31 December 2020 included in assets and liabilities held for sale are accrued energy income and accrued commodity costs of £684 million and £504 million respectively, cash and cash equivalents of £107 million, securities of £4 million, and derivative financial assets and liabilities of £159 million and £240 million respectively.

Supplementary information continued

S7. Fixed-fee service and insurance contracts

This section includes fixed-fee service (FFS) and insurance contract disclosures for services related to British Gas and Direct Energy. Direct Energy had been classified as a discontinued operation in 2020, with its assets and liabilities classified as held for sale in 2020. The disclosures given below relate to the Centrica Group as a whole.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL) and with business customers by British Gas Services (Commercial) Limited. Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

During 2020, FFS contracts in North America were entered into with home and business services customers. Insurance contracts in North America were entered into with home services customers.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until either party cancels; insurance contracts normally provide cover for twelve months with the option of renewal.

The contracts that protect policyholders against the risk of breakdowns result in risk transfer to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into. However, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under the contract terms depend on the occurrence of uncertain future events, particularly the nature and frequency of faults, and the cost of repair or replacement of the items affected. Accordingly, the timing and the amount of future cash outflows associated with the contracts is uncertain. As the Group's insurance contract portfolio is comprised of a large number of contracts with small individual values, a high volume of claims with relatively low unit cost results. The characteristics of the business mean that material concentrations or aggregations of risk are relatively remote. The key terms and conditions that affect future cash flows are as follows:
- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- a specified number of safety and maintenance inspections are carried out as set out in the agreement (usually once a year);
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

The most significant insurance risk is an extreme weather event for an extended period, which has the propensity to increase claim frequencies. The Group regularly assesses insurance risk sensitivities, the most significant relating to increases in breakdown frequency and increases in the average cost of repair. A reasonably possible increase in either would not have a material impact on the results of the Group.

Revenue is recognised over the life of contracts (usually twelve months) regarding the incidence of risk, in particular the seasonal propensity of claims that span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by the Group within home services and the cost of parts utilised in repair or maintenance. Revenue is accounted for over a 12-month period, with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year.

The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:
- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contracts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of FFS claims and insurance claims incurred during the year were £3 million (2020: £8 million) and £293 million (2020: £338 million) respectively and are included in the table below in 'Expenses relating to FFS and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date in 2021 or 2020.

31 December	**2021 £m**	2020 £m
Total revenue	**913**	1,063
Expenses relating to FFS and insurance contracts	**(803)**	(872)
Deferred income	**(37)**	(72)
Accrued income	**31**	32

The table above includes amounts related to disposal groups held for sale and discontinued operations.

The Group also considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

S8. Related party transactions

The Group's principal related party is its investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related in the current reporting period.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

31 December	2021 Purchase of goods and services £m	2021 Amounts owed to £m	2020 Purchase of goods and services £m	2020 Amounts owed to £m
Associates:				
Nuclear	**(300)**	**(40)**	(501)	(49)
Joint Ventures	**–**	**–**	(7)	–
	(300)	**(40)**	(508)	(49)

During the year, there were no material changes to commitments in relation to joint ventures and associates.

At the balance sheet date, the Group had committed facilities to the Lake Acquisition Group totalling £120 million (2020: £120 million), although nothing has been drawn at 31 December 2021.

Key management personnel comprise members of the Board and Executive Committee, a total of 10 individuals at 31 December 2021 (2020: 11).

Remuneration of key management personnel Year ended 31 December	2021 £m	2020 £m
Short-term benefits	**4.1**	4.3
Post-employment benefits	**0.4**	0.4
Share-based payments	**0.5**	2.6
	5.0	7.3

Remuneration of the Directors of Centrica plc Year ended 31 December	2021 £m	2020 £m
Total emoluments (i)	**2.6**	2.7
Contributions into pension schemes	**0.1**	0.2
	2.7	2.9

(i) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

Directors' interests in shares are given in the Remuneration Report on pages 71 to 81.

S9. Auditors' remuneration

Year ended 31 December	2021 £m	2020 £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated:		
Financial Statements	**5.0**	5.5
Audit of the Company's subsidiaries	**1.7**	1.7
Total fees related to the audit of the parent and subsidiary entities	**6.7**	7.2
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services (i)	**0.8**	3.0
All other services (ii)	**0.9**	1.3
Total fees	**8.4**	11.5
Fees in respect of pension scheme audits (iii)	**0.1**	0.1

(i) Current year predominantly relates to the review of the condensed interim Financial Statements and the audit of the Ofgem Consolidated Segmental Statement. The prior year includes these costs but also significant assurance work linked to the Direct Energy disposal.

(ii) Relates to the Class 1 Circular reporting accountant work for the Spirit Energy Norway and Statfjord field proposed disposal (2020 – Class 1 Circular reporting accountant work for the Direct Energy disposal).

(iii) The pension scheme audit continues to be performed by PricewaterhouseCoopers LLP.

During 2021, work on the divestment of Spirit Energy Norway and the Statfjord field required additional other services from Deloitte in respect of the disposal Class 1 Circular. During 2020, work on the divestment of Direct Energy also required additional services in respect of that disposal Class 1 Circular and the audit of the US GAAP carve-out accounts for Direct Energy, undertaken for the purchaser NRG's purposes, but under the direction of the Group. Approval for both years' expenditures was sought and received from the Audit and Risk Committee in advance of the work commencing.

Supplementary information continued

S10. Related undertakings

The Group has a large number of related undertakings principally in the UK, US, Norway, Canada, Denmark, the Netherlands and the Republic of Ireland. These are listed below.

(a) Subsidiary undertakings

Investments held directly by Centrica plc with 100% voting rights

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Beta Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Trading Limited	Dormant	United Kingdom / A	Ordinary shares
Rhodes Holdings HK Limited	Holding Company	Hong Kong / B	Ordinary shares

Investments held indirectly by Centrica plc with 100% voting rights

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Accord Energy (Trading) Limited	Dormant	United Kingdom / A	Ordinary shares
Accord Energy Limited	Dormant	United Kingdom / A	Ordinary shares
Alertme.com GmbH	Non-trading	Germany / C	Ordinary shares
Astrum Solar, Inc.	Home and/or commercial services	United States / D	Ordinary shares
Atform Limited	Dormant	United Kingdom / A	Ordinary shares
Bord Gáis Energy Limited	Energy supply and power generation	Republic of Ireland / E	Ordinary shares
Bord Gáis Energy Trustees DAC	Pension trustee company	Republic of Ireland / E	Ordinary shares
British Gas Energy Procurement Limited	Energy supply	United Kingdom / A	Ordinary shares
British Gas Finance Limited	Vehicle leasing	United Kingdom / A	Ordinary shares
British Gas Insurance Limited	Insurance provision	United Kingdom / A	Ordinary shares
British Gas Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas New Heating Limited	Electrical and gas installations	United Kingdom / A	Ordinary shares
British Gas Services (Commercial) Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Services Limited	Home services	United Kingdom / A	Ordinary shares
British Gas Social Housing Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Solar Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas Trading Limited	Energy supply	United Kingdom / A	Ordinary shares
British Gas X Limited	Dormant	United Kingdom / A	Ordinary shares
Business Gas Limited	Dormant	United Kingdom / A	Ordinary shares
Caythorpe Gas Storage Limited	Gas storage	United Kingdom / F	Ordinary shares
CBS US Solar Fund 1, LLC	Distributed energy and power	United States / G	Membership interest
Centrica (IOM) Limited	Dormant	Isle of Man / H	Ordinary shares
Centrica (Lincs) Wind Farm Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Alpha Finance Limited	Non-trading	United Kingdom / A	Ordinary shares
Centrica America Limited	Non-trading	United Kingdom / A	Ordinary shares
Centrica Barry Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Brigg Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Business Holdings Inc.	Holding company	United States / I	Ordinary shares
Centrica Business Solutions (Generation) Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Business Solutions Asset Management, LLC	Energy management products and services	United States / G	Membership interest
Centrica Business Solutions B.V.	Energy management products and services	Netherlands / J	Ordinary shares
Centrica Business Solutions Belgium NV	Demand response aggregation	Belgium / K	Ordinary shares
Centrica Business Solutions Canada Inc.	Energy management products and services	Canada / L	Ordinary shares
Centrica Business Solutions Deutschland GmbH	Demand response aggregation	Germany / M	Ordinary shares
Centrica Business Solutions France SASU	Demand response aggregation	France / N	Ordinary shares
Centrica Business Solutions International Limited	Holding company	United Kingdom / A	Ordinary shares

S10. Related undertakings

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Business Solutions Ireland Limited	Energy management products and services	Republic of Ireland / E	Ordinary shares
Centrica Business Solutions Italia Srl	Energy management products and services	Italy / O	Ordinary shares
Centrica Business Solutions Management Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Business Solutions México S.A. de C.V.	Energy management products and services	Mexico / P	Ordinary shares
Centrica Business Solutions Optimize, LLC	Energy management products and services	United States / G	Membership interest
Centrica Business Solutions Romania Srl	Energy management products and services	Romania / Q	Ordinary shares
Centrica Business Solutions Services, Inc.	Energy management products and services	United States / G	Ordinary shares
Centrica Business Solutions UK Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Centrica Business Solutions UK Optimisation Limited	Demand response aggregation	United Kingdom / A	Ordinary shares
Centrica Business Solutions US, Inc.	Energy management products and services	United States / G	Ordinary shares
Centrica Business Solutions Zrt	Energy management products and services	Hungary / R	Ordinary shares
Centrica Combined Common Investment Fund Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Delta Limited	Dormant	Isle of Man / S	Ordinary shares
Centrica Directors Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Distributed Generation Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Energy (Trading) Limited	Non-trading	United Kingdom / A	Ordinary shares
Centrica Energy Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Marketing Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Operations Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Renewable Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Trading A/S	Energy services and wholesale energy trading	Denmark / T	Ordinary shares
Centrica Energy Trading GmbH	Energy services and wholesale energy trading	Germany / U	Ordinary shares
Centrica Energy Trading Pte. Ltd.	Energy services and wholesale energy trading	Singapore / V	Ordinary shares
Centrica Engineers Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Finance (Canada) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance (Scotland) Limited	Holding company	United Kingdom / W	Ordinary shares
Centrica Finance (US) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance Investments Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance Norway Limited	Dormant	Jersey / X	Ordinary shares
Centrica Gamma Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Hive Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Centrica Hive Srl	Energy management products and services	Italy / Y	Ordinary shares
Centrica Ignite GP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica Ignite LP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica India Offshore Private Limited	Business services	India / Z	Ordinary shares
Centrica Infrastructure Limited	Dormant	United Kingdom / W	Ordinary shares
Centrica Innovations UK Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica Innovations US, Inc.	Investment company	United States / G	Ordinary shares
Centrica Insurance Company Limited	Insurance provision	Isle of Man / H	Ordinary and preference shares
Centrica KPS Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Lake Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Leasing (KL) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica LNG Company Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica LNG UK Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica Nederland B.V.	Holding company	Netherlands / J	Ordinary shares
Centrica NewCo 123 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Nigeria Limited	Holding company	United Kingdom / A	Ordinary shares

Supplementary information continued

S10. Related undertakings

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica No.12 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Nominees No.1 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Offshore UK Limited	Gas and/or oil exploration and production	United Kingdom / F	Ordinary shares
Centrica Onshore Processing UK Limited	Dormant	United Kingdom / F	Ordinary shares
Centrica Overseas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Pension Plan Trustees Limited	Dormant	United Kingdom / A	Limited by guarantee
Centrica Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Production Limited	Dormant	United Kingdom / W	Ordinary shares
Centrica Resources (Nigeria) Limited	Non-trading	Nigeria / AA	Ordinary shares
Centrica Resources (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Resources Petroleum UK Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Secretaries Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Services Limited	Business services	United Kingdom / A	Ordinary shares
Centrica Storage Holdings Limited	Holding company	United Kingdom / F	Ordinary shares
Centrica Storage Limited	Gas production and processing	United Kingdom / F	Ordinary shares
Centrica Titan Limited (ii)	Non-trading	United Kingdom / A	Ordinary shares
Centrica Trinidad and Tobago Limited	Business services	Trinidad and Tobago / AB	Ordinary shares
Centrica Trust (No.1) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Upstream Investment Limited	Dormant	United Kingdom / W	Ordinary shares
CH4 Energy Limited	Dormant	United Kingdom / A	Ordinary shares
CID1 Limited	Dormant	United Kingdom / A	Ordinary shares
CIU1 Limited	Dormant	United Kingdom / A	Ordinary shares
DEML Investments Limited	Holding company	Canada / L	Ordinary shares
DER Development No.10 Ltd.	Holding company	Canada / L	Ordinary shares
Distributed Energy Asset Solutions Limited	Dormant	United Kingdom / A	Ordinary shares
Distributed Energy Customer Solutions Limited	Energy management products and services	United Kingdom / A	Ordinary shares
Drips Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno Developments Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Plumbing Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Rod Limited	Operation of a franchise network	United Kingdom / A	Ordinary shares
Dyno-Security Services Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Services Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Contracts Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Electricity Direct (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
ENER-G Cogen International Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Nagykanizsa Kft	Energy management products and services	Hungary / R	Ordinary shares
ENER-G Power2 Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Rudox, LLC	Energy management products and services	United States / G	Membership interest
Energy For Tomorrow	Not-for-profit energy services	United Kingdom / A	Limited by guarantee
FES Energy Solutions Limited	Energy management products and services	Republic of Ireland / E	Ordinary shares
GB Gas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Generation Green Solar Limited	Dormant community benefit society	United Kingdom / A	Ordinary shares
GF One Limited (iii)	In liquidation	United Kingdom / AC	Ordinary shares
GF Two Limited (iii)	In liquidation	United Kingdom / AC	Ordinary shares
Goldbrand Development Limited	Dormant	United Kingdom / A	Ordinary shares
Hillserve Limited	Dormant	United Kingdom / A	Ordinary shares

S10. Related undertakings

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Home Assistance UK Limited	Dormant	United Kingdom / A	Ordinary shares
Neas Energy Limited	Energy services and wholesale energy trading	United Kingdom / A	Ordinary shares
Neas Invest A/S	Dormant	Denmark / T	Ordinary shares
Newco One Limited	Dormant	United Kingdom / A	Ordinary shares
North Sea Infrastructure Partners Limited	Dormant	United Kingdom / W	Ordinary shares
NSIP (Holdings) Limited	Dormant	United Kingdom / W	Ordinary shares
P.H. Jones Facilities Management Ltd	Non-trading	United Kingdom / A	Ordinary shares
P.H Jones Group Limited	Holding company	United Kingdom / A	Ordinary shares
Panoramic Power Ltd.	Energy management products and services	Israel / AD	Ordinary shares
Pennings Power Limited (iv)	Building solar farm & connecting to grid	United Kingdom / A	Ordinary shares
Pioneer Shipping Limited	LNG vessel chartering	United Kingdom / A	Ordinary Shares
Repair and Care Limited	Dormant	United Kingdom / A	Ordinary shares
Solar Technologies Group Limited	Dormant	United Kingdom / A	Ordinary shares
Solar Technologies Limited	Dormant	United Kingdom / A	Ordinary shares
Soren Limited	Dormant	United Kingdom / A	Ordinary shares
South Energy Investments LLC	Investment company	United States / AE	Membership interest
Vista Solar, Inc.	Distributed energy and power	United States / AF	Ordinary shares

Supplementary information continued

S10. Related undertakings

Investments held indirectly by Centrica plc with 69% voting rights

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Spirit Norway Holdings AS [(v)]	Holding company	Norway / AG	Ordinary shares
Bowland Resources (No.2) Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Bowland Resources Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Elswick Energy Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
NSGP (Ensign) Limited	Gas and/or oil exploration and production	Jersey / AI	Ordinary shares
Spirit Energy Hedging Holding Limited	Dormant	United Kingdom / AH	Ordinary shares
Spirit Energy Hedging Limited	Dormant	United Kingdom / AH	Ordinary shares
Spirit Energy Limited	Holding company	United Kingdom / AH	Ordinary and deferred shares
Spirit Energy Nederland B.V.	Gas and/or oil exploration and production	Netherlands / AJ	Ordinary shares
Spirit Energy North Sea Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Spirit Energy North Sea Oil Limited	Gas and/or oil exploration and production	United Kingdom / AK	Ordinary shares
Spirit Energy Norway AS	Gas and/or oil exploration and production	Norway / AL	Ordinary shares
Spirit Energy Production UK Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Spirit Energy Resources Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Spirit Energy Southern North Sea Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Spirit Energy Treasury Limited	Finance company	United Kingdom / AH	Ordinary shares
Spirit Europe Limited	Holding company	United Kingdom / AH	Ordinary shares
Spirit Infrastructure B.V.	Construction, ownership and exploitation of infrastructure	Netherlands / AJ	Ordinary shares
Spirit North Sea Gas Limited	Gas and/or oil exploration and production	United Kingdom / AK	Ordinary shares
Spirit Norway Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares
Spirit Production (Services) Limited	Business services	United Kingdom / AK	Ordinary shares
Spirit Resources (Armada) Limited	Gas and/or oil exploration and production	United Kingdom / AH	Ordinary shares

(i) For list of registered addresses, refer to note S10(d).
(ii) Established in 2021.
(iii) GF One Limited and GF Two Limited are 75% indirectly owned by Centrica plc.
(iv) Acquired in 2021.
(v) Bayerngas Norge AS changed its name to Sprit Norway Holdings AS during the year.

S10. Related undertakings

(b) Subsidiary undertakings – partnerships held indirectly by Centrica plc with 100% voting rights

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
CF 2016 LLP	Group financing	United Kingdom / A	Membership interest
CFCEPS LLP	Group financing	United Kingdom / A	Membership interest
CFCPP LLP	Group financing	United Kingdom / A	Membership interest
Direct Energy Resources Partnership	Holding entity	Canada / AM	Membership interest
Finance Scotland 2016 Limited Partnership	Group financing	United Kingdom / W	Membership interest
Finance Scotland CEPS Limited Partnership	Group financing	United Kingdom / W	Membership interest
Finance Scotland CPP Limited Partnership	Group financing	United Kingdom / W	Membership interest
Ignite Social Enterprise LP	Social enterprise investment fund	United Kingdom / A	Membership interest

(i) For list of registered addresses, refer to note S10(d).

The following partnerships are fully consolidated into the Group Financial Statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate accounts for these entities:

- Finance Scotland 2016 Limited Partnership;
- Finance Scotland CEPS Limited Partnership;
- Finance Scotland CPP Limited Partnership; and
- Ignite Social Enterprise LP.

(c) Joint arrangements and associates

31 December 2021	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Indirect interest and voting rights (%)
Joint ventures (ii)				
Allegheny Solar 1, LLC	Energy supply and/or services	United States / AN	Membership interest	40.0%
C2 Centrica MT, LLC	Energy supply and/or services	United States / AO	Membership interest	50.0%
Celtic Array Limited	In liquidation	United Kingdom / A	Ordinary shares	50.0%
Eurowind Polska VI Sp z.o.o.	Operation of an onshore windfarm	Poland / AP	Ordinary shares	50.0%
Greener Ideas Limited	Development of flexible power generation sites	Republic of Ireland / E	Ordinary shares	50.0%
Three Rivers Solar 1, LLC	Energy supply and/or services	United States / AN	Membership interest	40.0%
Three Rivers Solar 2, LLC	Energy supply and/or services	United States / AN	Membership interest	40.0%
Three Rivers Solar 3, LLC	Energy supply and/or services	United States / AN	Membership interest	40.0%
Vindpark Keblowo ApS	Operation of an onshore windfarm	Denmark / AQ	Ordinary shares	50.0%
Associates (ii)				
Lake Acquisitions Limited	Holding company	United Kingdom / AR	Ordinary shares	20.0%

(i) For list of registered addresses, refer to note S10(d).
(ii) Further information on the principal joint ventures and associate investments held by the Group is disclosed in notes 6 and 14.

All Group companies principally operate within their country of incorporation unless noted otherwise.

Supplementary information continued

S10. Related undertakings

(d) List of registered addresses

Registered address key	Address
A	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom
B	Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong
C	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
D	2 Wisconsin Circle #700, Chevy Chase, MD 20815, United States
E	1 Warrington Place, Dublin 2, Republic of Ireland
F	Woodland House, Woodland Park, Hessle, HU13 0FA, United Kingdom
G	3411 Silverside Road, Suite 104, Tatnall Building, Wilmington, DE 19810, United States
H	3rd floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
I	3411 Silverside Road, Rodney Building #104, Wilmington, DE 19810, United States
J	Wiegerbruinlaan 2A, 1422 CB Uithoorn, Netherlands
K	Roderveldlaan 2 bus 2, 2600 Antwerp, Belgium[i]
L	550 Burrard Street, Suite 2900, Vancouver BC V6C 0A3, Canada[ii] [iii]
M	Neuer Wall 10, 20354 Hamburg, Germany
N	60 Avenue Charles de Gaulle, Cs 60016, 92573, Neuilly sur Seine Cedex, France
O	Milan (MI), Via Emilio Cornalia 26, Italy
P	Presidente Masaryk no. 61, Piso 7, Mexico, D.f. CP 11570, Mexico
Q	Strada Martir Colonel Ioan U nr.28 camera 1, Municipiul Timisoara judet Timis, Romania
R	H-1106 Budapest Jászberényi út 24-36, Hungary
S	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man
T	Skelagervej 1, 9000 Aalborg, Denmark
U	Gustav-Mahler-Platz 1, 20354 Hamburg, Germany
V	220 Orchard Road, #05-01 Midpoint Orchard, Singapore 238852, Republic of Singapore
W	1 Waterfront Avenue, Edinburgh, Scotland EH5 1SG, United Kingdom
X	47 Esplanade, St Helier, JE1 0BD, Jersey, Channel Islands
Y	Via Paleocapa Pietro 4, 20121, Milano, Italy
Z	G-74, LGF, Kalkaji, New Delhi, South Delhi, Delhi, 110019, India
AA	Sterling Towers, 20 Marina Street, Lagos, Nigeria
AB	48-50 Sackville Street, Port of Spain, Trinidad and Tobago
AC	1 More London Place, London, SE1 2AF, United Kingdom
AD	15 Atir Yeda Street, Kfar Saba, 44643, Israel
AE	6 Landmark Square, 4th Floor, Stamford CT 06901, United States
AF	4640 Admiralty Way, 5th floor, Marina del Rey, California 90292, United States
AG	Lilleakerveien 8, 0283 Oslo, Norway
AH	1st floor, 20 Kingston Road, Staines-upon-Thames, TW18 4LG, United Kingdom
AI	Sanne, IFC 5, St Helier, JE1 1ST, Jersey, Channel Islands
AJ	Transpolis Building, Polarisavenue 39, 2132 JH Hoofddorp, Netherlands
AK	5th floor, IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom
AL	Veritasvien 29, 4007 Stavanger, Norway
AM	350 7th Avenue SW, Suite 3400, Calgary AB T2P 3N9, Canada
AN	1209 Orange Street, Wilmington, New Castle County, DE 19801, United States
AO	850 New Burton Road, Suite 201, Dover, DE 19904, United States
AP	Ul. Wysogotowska 23, 62-081 Przezmierowo, Wielkpolskie, Poland
AQ	Mariagervej 58B, DK 9500 Hobro, Denmark
AR	90 Whitfield Street, London, W1T 4EZ, United Kingdom

(i) Centrica Business Solutions Belgium NV changed its registered address during the year from Posthofbrug 12, 2600 Antwerp, Belgium to the address listed above.

(ii) Centrica Business Solutions Canada Inc. and DER Development No. 10 Ltd changed their registered addresses during the year from 350 7th Avenue SW, Suite 3400, Calgary AB T2P 3N9, Canada to the address listed above.

(iii) DEML Investments Limited changed its registered address during the year from Bay Adelaide Centre, 333 Bay Street, Suite 2400, Toronto ON, MSH 2T6, Canada to the address listed above.

S10. Related undertakings

(e) Summarised financial information

Material associates and joint arrangements

Management has determined that the investment in Lake Acquisitions Limited is sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information, along with reconciliations to the amounts included in the consolidated Group Financial Statements, for this investee.

Lake Acquisitions Limited

Summarised statement of total comprehensive income

	2021				2020			
Year ended 31 December	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m
Revenue	1,661	332	–	332	2,748	550	–	550
Operating (loss)/profit before interest and tax	(1,106)	(221)	97	(124)	433	87	(30)	57
(Loss)/profit for the year	(889)	(178)	75	(103)	300	60	(36)	24
Other comprehensive income	760	152	–	152	291	58	–	58
Total comprehensive income	(129)	(26)	75	49	591	118	(36)	82

Summarised balance sheet

	2021				2020			
31 December	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m
Non-current assets	21,054	4,211	898	5,109	19,328	3,866	574	4,440
Current assets	3,527	705	–	705	3,756	751	–	751
Current liabilities	(1,791)	(358)	–	(358)	(1,011)	(202)	–	(202)
Non-current liabilities	(14,379)	(2,876)	(263)	(3,139)	(13,528)	(2,706)	(14)	(2,720)
Net assets	8,411	1,682	635	2,317	8,545	1,709	560	2,269

(i) Before cumulative impairments of £692 million (2020: £1,439 million) of the Group's associate investment.

During the year, dividends of £1 million (2020: £60 million) were paid by the associate to the Group.

Joint operations – fields/assets

31 December 2021	Location	Percentage holding
Cygnus	UK North Sea	61%

Supplementary information continued

S11. Non-controlling interests

The Group has one subsidiary undertaking with a non-controlling interest: Spirit Energy Limited, through which the Group carries out the majority of its exploration and production activities.

	2021					2020				
31 December	**Non-controlling interests %**	**Loss for the year £m**	**Total comprehensive loss £m**	**Total equity £m**	**Distributions to non-controlling interests £m**	Non-controlling interests %	Loss for the year £m	Total comprehensive loss £m	Total equity £m	Distributions to non-controlling interests £m
Spirit Energy Limited	**31**	**(37)**	**(40)**	**385**	**–**	31	(158)	(158)	425	–

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of Spirit Energy Limited and its subsidiaries that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

Summarised statement of total comprehensive income

Year ended 31 December	**2021 £m**	2020 £m
Revenue	**1,795**	1,278
Loss for the year	**(118)**	(510)
Other comprehensive loss	**(10)**	–
Total comprehensive loss	**(128)**	(510)

Summarised balance sheet

31 December	**2021 £m**	2020 £m
Non-current assets	**2,169**	3,128
Current assets	**1,649**	791
Assets of disposal groups classified as held for sale	**1,651**	–
Current liabilities	**(1,846)**	(395)
Liabilities of disposal groups classified as held for sale	**(1,225)**	–
Non-current liabilities	**(1,156)**	(2,154)
Net assets	**1,242**	1,370

Summarised cash flow

Year ended 31 December	**2021 £m**	2020 £m
Net increase/(decrease) in cash and cash equivalents	**66**	(20)

Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Other equity (note II) £m	Total equity £m
1 January 2020	360	2,330	28	2,691	16	5,425
Loss for the year	–	–	–	(1,072)	–	(1,072)
Other comprehensive loss	–	–	–	–	(61)	(61)
Total comprehensive loss	–	–	–	(1,072)	(61)	(1,133)
Employee share schemes and other share transactions	1	17	–	(8)	12	22
31 December 2020	361	2,347	28	1,611	(33)	4,314
Profit for the year	–	–	–	976	–	**976**
Other comprehensive income	–	–	–	–	10	**10**
Total comprehensive income	–	–	–	976	10	**986**
Employee share schemes and other share transactions	2	30	–	3	(24)	**11**
31 December 2021	**363**	**2,377**	**28**	**2,590**	**(47)**	**5,311**

As permitted by section 408(3) of the Companies Act 2006 no Income Statement or Statement of Comprehensive Income is presented.

The Directors do not propose a final dividend for the year ended 31 December 2021.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the Group consolidated Financial Statements.

The notes on pages 213 to 222 form part of these Financial Statements, along with note 25 to the Group consolidated Financial Statements.

Company Balance Sheet

31 December	Notes	2021 £m	2020 (restated) £m
Non-current assets			
Property, plant and equipment	IV	**5**	13
Investments	V	**1,100**	1,117
Trade and other receivables	VI	**12,809**	12,844
Derivative financial instruments	VII	**86**	206
Retirement benefit assets	XII	**102**	38
Securities		**110**	108
		14,212	14,326
Current assets			
Trade and other receivables	VI	**744**	788
Derivative financial instruments	VII	**87**	231
Current tax assets		**–**	11
Cash and cash equivalents		**3,627**	899
		4,458	1,929
Total assets		**18,670**	16,255
Current liabilities			
Derivative financial instruments	VII	**(73)**	(45)
Current tax liabilities		**(1)**	–
Trade and other payables	IX	**(9,056)**	(6,843)
Provisions for other liabilities and charges		**(1)**	(1)
Bank overdrafts, loans and other borrowings	XI	**(810)**	(579)
		(9,941)	(7,468)
Non-current liabilities			
Deferred tax liabilities	X	**(14)**	(2)
Derivative financial instruments	VII	**(6)**	(12)
Trade and other payables	IX	**(154)**	(132)
Provisions for other liabilities and charges		**(1)**	(1)
Retirement benefit liabilities	XII	**(66)**	(66)
Bank loans and other borrowings	XI	**(3,177)**	(4,260)
		(3,418)	(4,473)
Total liabilities		**(13,359)**	(11,941)
Net assets		**5,311**	4,314
Share capital		**363**	361
Share premium		**2,377**	2,347
Capital redemption reserve		**28**	28
Retained earnings [i]		**2,590**	1,611
Other equity	II	**(47)**	(33)
Total shareholders' equity		**5,311**	4,314

(i) Retained earnings includes a net profit after taxation of £976 million (2020: £1,072 million loss).

The prior year has been re-presented to reclassify £12,808 million of current receivables owed by Group undertakings to non-current receivables owed by Group undertakings as they do not meet the IAS 1 'Presentation of Financial Statements' classification criteria for current assets. The non-current receivables owed by Group undertakings are unlikely to be repaid before 31 December 2022. See note I for further details.

The Financial Statements on pages 211 to 222, of which the notes on pages 213 to 222 form part, along with note 25 to the Group consolidated Financial Statements, were approved and authorised for issue by the Board of Directors on 23 February 2022 and were signed on its behalf by:

Chris O'Shea
Group Chief Executive

Kate Ringrose
Group Chief Financial Officer

Centrica plc Registered No: 03033654

Notes to the Company Financial Statements

I. General information and principal accounting policies of the Company

General information

The Company is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales. The registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The Company Financial Statements are presented in pounds sterling with all values rounded to the nearest million pounds. Pounds sterling is the functional currency of the Company.

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100: 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements are prepared in accordance with FRS 101: 'Reduced Disclosure Framework'.

From 1 January 2021, the following standards and amendments are effective in the Company's Financial Statements:

- Amendments to IFRS 17 and IFRS 4: 'Insurance Contracts' – deferral of IFRS 9; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

Phase 2 of the Interest Rate Benchmark Reform became effective on 1 January 2021. Under Phase 2, to the extent that modifications are made to financial instruments that are necessary to implement Interest Rate Benchmark Reform, reliefs from the discontinuation of hedge accounting or immediate recognition of any gains or losses in the income statement are available on transition to alternative rates, provided that the new basis for calculating cash flows is economically equivalent to the previous basis. Reliefs permit hedge accounting relationships to continue unaffected.

The Company will apply the International Swaps and Derivatives Associates (ISDA) fallback protocol to the derivative financial instruments held by the Company affected by the IBOR Reform. These instruments primarily comprise interest rate swap agreements, under which the contractual cash flows are calculated with reference to LIBOR. The ISDA fallback rates are derived from the Sterling Overnight Interbank Average (SONIA) rate and are calculated and published by Bloomberg. The Company determines that Phase 1 reliefs no longer apply – the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows ceased on 31 December 2021, at the point of transition to the ISDA fallback protocol.

The Company has determined that the reliefs available under Phase 2 of the Reform are available and has amended the formal designation of hedge relationships; hedge accounting is expected to continue.

The amendments to IFRS 4 defer the date of application of IFRS 17 to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9 until 1 January 2023.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:

- 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 reconciliation in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

As the Group consolidated Financial Statements of Centrica plc, which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of certain disclosures required by IFRS 13: 'Fair value measurement' and the disclosures required by IFRS 7: 'Financial instruments: disclosures'. These disclosures have not been provided apart from those that are relevant for financial instruments held at fair value.

Re-presentation of amounts owned by Group Undertakings

During 2021, the Company's current receivable balances within Group undertakings were reassessed against the classification criteria of current assets as set out in 'IAS 1 'Presentation of Financial Statements'. All outstanding current receivable balances owned by Group undertakings are repayable on demand as per the contractual agreement and arise mainly from funding provided by the Company to its subsidiaries. However, IAS 1 states that "an entity shall classify an asset as current when it expects to realise the asset within twelve months after the reporting period". The Company reassessed the current amounts owed by Group undertakings based on expected timing and subsidiaries' intention to repay the amounts due within twelve months after the reporting date and concluded that £12,798 million (2020: £12,808 million) of the current receivables balances as at 31 December 2021 should be classified as non-current assets; comparatives have therefore been restated as detailed further in note VI of the Company's Financial Statements.

At the same time, the Company has also analysed the current payable balance with Group undertakings presentation to 'IAS 1 'Presentation of Financial Statements' where these are not expected to be settled within twelve months after the reporting period. However, they are contractually payable on demand from Company's perspective, therefore due within twelve months and continue to be presented as current liabilities as detailed further in note IX of the Company's Financial Statements.

I. General information and principal accounting policies of the Company

The change in presentation of the majority of the Company's current receivable balances with Group undertakings to non-current receivables results in the Company presenting net current liabilities of £5,483 million (2020: £5,539 million). This does not impact the Company's ability to meet its liabilities as they fall due, because of the Company's ability to control timing of all group repayments.

Measurement convention

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

Going concern

The accounts have been prepared on a going concern basis, as described in the Directors' Report and note 24(b) of the Group consolidated Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The Company does not have any critical accounting judgements. It is subject to estimation uncertainty related to its share of the Group's pension scheme surplus/deficit, as detailed further in note 22 of the Group consolidated Financial Statements. The valuation of the Company's investments is also a key source of estimation uncertainty. The Company's net assets were higher than its market capitalisation on 31 December 2021, and this was an indicator of impairment. However, the estimate of the recoverable amounts of these investments were in excess of their carrying values and as a result, no further impairment has been reflected. The key assumptions used in determining the recoverable amount of the Company's investments in subsidiaries are consistent with those used to value the underlying businesses and assets in those subsidiaries. Further details on these assumptions and related sensitivities are given in note 7 to the Group consolidated Financial Statements.

Principal accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Company Financial Statements.

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 71 to 81 and in note S2 to the Group consolidated Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. When these costs are recharged to the subsidiary undertaking, the investment balance is reduced accordingly.

Fair value is measured using methods detailed in note S2 to the Group consolidated Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the Income Statement.

Property, plant and equipment

PP&E is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises purchase price and 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.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, on a straight-line basis, over a period of 3 to 10 years.

Investments

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

I. General information and principal accounting policies of the Company

Impairment

Impairment of investments in subsidiaries and non-financial assets

The Company's accounting policies in respect of impairment of property, plant and equipment, and intangible assets are consistent with those of the Group.

The carrying values of investments in subsidiary undertakings 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.

The recoverable amount of an investment in a subsidiary undertaking 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.

Impairment of other financial assets and credit losses for financial guarantee contracts

The Company's impairment policies in relation to financial assets are consistent with those of the Group, with additional consideration given to amounts owed by Group undertakings. Except for certain loans due in greater than one year, all outstanding receivable balances are repayable on demand and arise from funding provided by the Company to its subsidiaries. Were net receivers of funding unable to repay loan balances in full at maturity, or if the debt was otherwise called upon, the Company expects that in such circumstances the counterparty would either negotiate extended credit terms with the Company or obtain external financing to repay the balance. As such, the expected credit loss is either considered immaterial based on discounting the loan over the extended payment term, or has been calculated by applying a default loss rate based on the actual or proxy credit rating of the counterparty. No change in credit risk is deemed to have occurred since initial recognition for amounts not repayable on demand, and therefore a 12-month expected credit loss has been calculated based on the assessed probability of default.

The Company has applied the impairment requirements of IFRS 9 to financial guarantees issued to its subsidiary undertakings. Expected credit losses on such arrangements have been calculated according to the nature of the guarantee and the Company's estimate of potential exposure at the balance sheet date.

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in notes 3(b) and 22 to the Group consolidated Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Note that as a participant in these multi-employer schemes, the Company could be liable for other entities' obligations (for example under section 75 of the Pensions Act). See note 22 of the Group consolidated Financial Statements for details of the overall scheme obligations. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

I. General information and principal accounting policies of the Company

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 balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax assets that are not eligible for offset against deferred tax liabilities are recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive Income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Financial instruments

The Company's accounting policies for financial instruments are consistent with those of the Group as disclosed in note S2 to the Group consolidated Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal Risks and Uncertainties on pages 38 to 43 and in note S3 to the Group consolidated Financial Statements.

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

II. Other equity

	Cash flow hedging reserve £m	Actuarial gains and losses reserve £m	Financial asset at FVOCI reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Total £m
1 January 2020	5	(33)	8	(37)	73	16
Losses on revaluation of equity investments measured at fair value through other comprehensive income	–	–	(1)	–	–	(1)
Actuarial loss	–	(79)	–	–	–	(79)
Employee share schemes:						
Increase in own shares	–	–	–	(30)	–	(30)
Exercise of awards	–	–	–	36	(46)	(10)
Value of services provided	–	–	–	–	52	52
Impact of cash flow hedging	4	–	–	–	–	4
Taxation on above items	(1)	16	–	–	–	15
31 December 2020	8	(96)	7	(31)	79	(33)
Gains on revaluation of equity investments measured at fair value through other comprehensive income	–	–	4	–	–	**4**
Actuarial gains	–	11	–	–	–	**11**
Employee share schemes:						
Exercise of awards	–	–	–	13	(49)	**(36)**
Value of services provided	–	–	–	–	12	**12**
Impact of cash flow hedging	(1)	–	–	–	–	**(1)**
Taxation on above items	(2)	(2)	–	–	–	**(4)**
31 December 2021	**5**	**(87)**	**11**	**(18)**	**42**	**(47)**

III. Directors and employees

Employee costs

Year ended 31 December	**2021 £m**	2020 £m
Wages and salaries	**(7)**	(13)
Other	**(8)**	(14)
	(15)	(27)

Average number of employees during the year

Year ended 31 December	**2021 Number**	2020 Number
Administration	**107**	134
Power	**19**	41
	126	175

IV. Property, plant and equipment

	2021 £m
Cost	
1 January	31
31 December	**31**
Accumulated depreciation	
1 January	(18)
Charge for year	(8)
31 December	**(26)**
NBV at 31 December (i)	**5**

(i) Included within the above balance is £5 million of right-of-use assets (2020: £13 million).

V. Investments in subsidiaries

	2021 (i) £m	2020 (i) £m
Cost		
1 January	2,290	2,262
Additions	–	44
Employee share scheme net capital movement (ii)	(17)	(16)
31 December	**2,273**	2,290
Provision		
1 January	(1,173)	–
Impairment provided in the year (iii)	–	(1,173)
31 December	**(1,173)**	(1,173)
NBV at 31 December	**1,100**	1,117

(i) Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England, and Rhodes Holdings HK Limited, which is incorporated in Hong Kong. Related undertakings are listed in note S10 to the Group consolidated Financial Statements.
(ii) Employee share scheme movement is the net change in shares to be awarded under employee share schemes to employees of Group undertakings.
(iii) An impairment charge was recognised in the prior year, predominantly in relation to the investment in Centrica Holdings Limited.

The Directors believe that the carrying value of the investments is supported by their realisable value.

VI. Trade and other receivables

	2021		2020 (restated) (iii)	
31 December	Current (i) £m	Non-current (ii) £m	Current (i) £m	Non-current (ii) £m
Amounts owed by Group undertakings	541	12,804	782	12,837
Prepayments	203	5	6	7
	744	12,809	788	12,844

(i) The amounts receivable by the Company includes a gross balance of £80 million (2020 restated: £211 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3% and 4.6% per annum during 2021 (2020: 3.5% and 5.9%). The other amounts receivable from Group undertakings are interest free. All amounts receivable from Group undertakings are unsecured and repayable on demand. Amounts receivable by the Company are stated net of provisions of £201 million (2020: restated £55 million).
(ii) The amounts receivable by the Company includes a gross balance of £13,335 million (2020 restated: £13,165 million) due after more than one year that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3% and 4.6% per annum during 2021 (2020 restated: 3.5% and 5.9%). During the year, the Company expected the amount of £20 million (long term loan due from British Gas Finance Limited in 2020) to be receivable within one year and therefore, reclassified it to current amounts owned by Group undertakings in (i) above. The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and not expected to be repayable within twelve months from the reporting date. Amounts receivable by the Company are stated net of provisions of £640 million (2020 restated: £508 million).
(iii) The prior year has been restated to reclassify £12,808 million of current receivables owed by Group undertakings to non-current receivables owed by Group undertakings as they do not meet IAS 1 'Presentation of Financial Statements' classification criteria for current assets. The non-current receivables owed by Group undertakings are unlikely to be repaid before 31 December 2022. See note I for further details.

VII. Derivative financial instruments

31 December	2021 Current £m	2021 Non-current £m	2021 Total £m	2020 Current £m	2020 Non-current £m	2020 Total £m
Derivative financial assets	**87**	**86**	**173**	231	206	437
Derivative financial liabilities	**(73)**	**(6)**	**(79)**	(45)	(12)	(57)

VIII. Financial instruments

(a) Determination of fair values

The Company's policies for the classification and valuation of financial instruments carried at fair value are consistent with those of the Group, as detailed in note S6 to the Group consolidated Financial Statements.

(b) Financial instruments carried at fair value

31 December	Level 1 £m	Level 2 £m	2021 Total £m	Level 1 £m	Level 2 £m	2020 Total £m
Financial assets						
Derivative financial assets held for trading:						
Foreign exchange derivatives	–	70	**70**	–	80	80
Interest rate derivatives	–	–	**–**	–	3	3
Derivative financial assets in hedge accounting relationships:						
Interest rate derivatives	–	71	**71**	–	182	182
Foreign exchange derivatives	–	32	**32**	–	172	172
Debt instruments	82	–	**82**	84	–	84
Equity instruments designated FVOCI	28	–	**28**	24	–	24
Cash and cash equivalents	–	3,485	**3,485**	–	796	796
Total financial assets at fair value	**110**	**3,658**	**3,768**	108	1,233	1,341
Financial liabilities						
Derivative financial liabilities held for trading:						
Foreign exchange derivatives	–	(74)	**(74)**	–	(48)	(48)
Derivative financial liabilities in hedge accounting relationships:						
Interest rate derivatives	–	–	**–**	–	(1)	(1)
Foreign exchange derivatives	–	(5)	**(5)**	–	(8)	(8)
Total financial liabilities at fair value	**–**	**(79)**	**(79)**	–	(57)	(57)

IX. Trade and other payables

	2021		2020	
31 December	**Current (i) £m**	**Non-current (ii) £m**	Current (i) £m	Non-current (ii) £m
Amounts owed to Group undertakings	**(9,044)**	**(154)**	(6,818)	(132)
Accruals and other creditors	**(12)**	**–**	(25)	–
	(9,056)	**(154)**	(6,843)	(132)

(i) The amounts payable by the Company include £7,658 million (2020: £5,834 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3% and 4.6% per annum during 2021 (2020: 3.5% and 5.9%). Other amounts payable by the Company are interest free, unsecured and repayable on demand. Refer to note I for further details.

(ii) The amounts payable by the Company due after more than one year include £141 million (2020: £120 million) that bears interest at the prevailing SONIA rate less 0.05% (prior to May 2020 LIBOR rate less 0.05%). These amounts payable are due in over one year. Other amounts payable by the Company are interest free, unsecured and repayable on demand.

X. Deferred tax

	Retirement benefit obligation £m	Other £m	**Total £m**
1 January 2020	(4)	(7)	**(11)**
Charge to income	(5)	(1)	**(6)**
Credit/(charge) to equity	16	(1)	**15**
31 December 2020	7	(9)	**(2)**
Charge to income	(7)	(1)	**(8)**
Charge to equity	(2)	(2)	**(4)**
31 December 2021	**(2)**	**(12)**	**(14)**

Other deferred tax liabilities primarily relate to other temporary differences. All deferred tax crystallises in over one year.

XI. Bank overdrafts, loans and other borrowings

	2021		2020	
31 December	**Current £m**	**Non-current £m**	Current £m	Non-current £m
Bank loans and overdrafts	**(453)**	**(137)**	(489)	(144)
Bonds	**(284)**	**(3,040)**	–	(4,111)
Interest accruals	**(68)**	**–**	(82)	–
Lease obligations	**(5)**	**–**	(8)	(5)
	(810)	**(3,177)**	(579)	(4,260)

Disclosures in respect of the Group's financial liabilities are provided in notes 24 and S3 to the Group consolidated Financial Statements. With the exception of leases and overdrafts, materially all of the Group's financing activity is carried out through the Company.

XII. Pensions

(a) Summary of main schemes

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

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

(b) Accounting assumptions, risks and sensitivity analysis

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

(c) Movements in the year

	2021		2020	
	Pension liabilities £m	Pension assets £m	Pension liabilities £m	Pension assets £m
1 January	(1,611)	1,583	(1,446)	1,492
Items included in the Company Income Statement:				
Current service cost	(7)	–	(8)	–
Interest on scheme liabilities	(23)	–	(31)	–
Expected return on scheme assets	–	26	–	33
Termination benefit/(cost)	4	–	(10)	–
Items included in the Company Statement of Comprehensive Income:				
Actuarial gain/(loss)	261	(250)	(165)	86
Other movements:				
Employer contributions	–	53	–	21
Benefits paid from schemes	48	(48)	49	(49)
31 December	(1,328)	1,364	(1,611)	1,583

Presented in the Company Balance Sheet as:

31 December	2021 £m	2020 £m
Retirement benefit pension assets	102	38
Retirement benefit pension liabilities	(66)	(66)
	36	(28)

The pension scheme liabilities relate to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial losses recognised in reserves

Year ended 31 December	2021 £m	2020 £m
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	(250)	86
Experience gain/(loss) arising on the scheme liabilities	288	(7)
Changes in assumptions underlying the present value of the schemes' liabilities	(27)	(158)
Actuarial gain/(loss) recognised in reserves before adjustment for taxation	11	(79)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(119)	(40)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(108)	(119)

XII. Pensions

(e) Defined benefit pension scheme contributions

Note 22 to the Group consolidated Financial Statements provides details of the triennial review carried out at 31 March 2018 in respect of the UK Registered Pension Schemes and the future pension scheme contributions, including asset-backed arrangements, agreed as part of this review. Under IAS 19, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £3 million of employer contributions during 2022 at an average rate of 22% of pensionable pay together with contributions via the salary sacrifice arrangement of £1 million.

For details of the weighted average duration of the liabilities of the Registered Pension Schemes see note 22 of the Group consolidated Financial Statements.

(f) Pension scheme assets

	2021			2020		
31 December	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	20	462	482	19	396	415
Corporate bonds	2,393	31	2,424	2,649	–	2,649
High-yield debt	2,720	1,197	3,917	2,069	1,286	3,355
Liability matching assets	1,963	1,356	3,319	2,192	1,069	3,261
Property	–	439	439	–	352	352
Cash pending investment	85	–	85	38	–	38
Asset-backed contribution assets	–	600	600	–	670	670
Group pension scheme assets (i)	7,181	4,085	11,266	6,967	3,773	10,740

	2021 £m	2020 £m
Company share of the above	1,364	1,583

(i) Total pension scheme assets, including asset-backed contribution assets not recognised in the Group consolidated Financial Statements.

XIII. Commitments

At 31 December 2021, the Company had commitments of £71 million (2020: £58 million) relating to contracts for outsourced services, £59 million (2020: £nil) relating to the contracts for information services centralised during the year and £5 million (2020: £3 million) relating to contracts for property services.

The Company has provided guarantees and letters of credit relating to its subsidiaries' trading activities and decommissioning obligations. At 31 December 2021, the Group has derivative liabilities of £6,009 million (2020: £1,168 million), and decommissioning liabilities of £1,521 million (2020: £2,408 million). See notes 19 and 21 to the Group consolidated Financial Statements for further information on these balances.

The Company has also provided guarantees in its role as sponsoring employer for the UK Registered Pension Schemes. These guarantees are for all present and future obligations of the Group to make payments to those schemes, and are capped at an amount equal to the potential section 75 (of Pensions Act 1995) debt that would be triggered in relation to the Centrica Engineers Pension Scheme, Centrica Pension Plan and Centrica Pension Scheme, were a Group employer entity to become insolvent, leave the schemes or cease to have active members, or on the winding up of the schemes. See note 22 of the Group consolidated Financial Statements for further details on these schemes.

These pension guarantees expired on 1 January 2022.

XIV. Related parties

During the year the Company accepted cash deposits on behalf of the Spirit Energy group of companies giving rise to a Trade and other payables balance of £1,161 million (2020: £419 million). Spirit Energy Limited is a subsidiary of the Company, held indirectly, that is not wholly owned. See note 3 to the Group consolidated Financial Statements for more information.

Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions, is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by Gaffney, Cline & Associates for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe.

The principal retained fields in Spirit Energy are Cygnus, South and North Morecambe, Rhyl and Chiswick. The principal fields in the Norwegian/Statfjord disposal group are Kvitebjørn, Statfjord, Ivar Aasen and Maria. The principal non-Spirit Energy field is Rough. The European reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

Estimated net 2P reserves of gas (billion cubic feet)	Spirit Energy – Norway/Statfjord (i)	Spirit Energy – retained fields (i)	Rough	**Total**
1 January 2021	220	353	45	**618**
Revisions of previous estimates (ii)	2	6	(3)	**5**
Extensions, discoveries and other additions	–	1	–	**1**
Production (iii)	(33)	(64)	(16)	**(113)**
31 December 2021	189	296	26	**511**

Estimated net 2P reserves of liquids (million barrels)	Spirit Energy – Norway/Statfjord (i)	Spirit Energy – retained fields (i)	Rough	**Total**
1 January 2021	69	5	–	**74**
Revisions of previous estimates (ii)	(6)	(2)	–	**(8)**
Production (iii)	(8)	(2)	–	**(10)**
31 December 2021	55	1	–	**56**

Estimated net 2P reserves (million barrels of oil equivalent)	Spirit Energy – Norway/Statfjord (i)	Spirit Energy – retained fields (i)	Rough	**Total**
31 December 2021 (iv)	88	50	4	**142**

(i) The movements represent Centrica's 69% interest in Spirit Energy.
(ii) Revision of previous estimates include those associated with North and South Morecambe, North Sea fields and Norwegian fields.
(iii) Represents total sales volumes of gas and oil produced from the Group's reserves.
(iv) Includes the total of estimated gas and liquids reserves at 31 December 2021 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Summary (Unaudited)

	2017 (restated) (i) (ii) £m	2018 (restated) (i) (ii) £m	2019 (restated) (ii) £m	2020 (restated) (ii) £m	**2021 £m**
Group revenue from continuing operations included in business performance (i)	17,126	16,465	15,958	14,949	**18,300**
Operating profit/(loss) from continuing operations before exceptional items and certain re-measurements:					
British Gas Services & Solutions (ii) (iii)	151	101	187	191	**121**
British Gas Energy (ii) (iii)	593	490	117	82	**118**
Centrica Business Solutions (ii) (iii)	(45)	(40)	(20)	(132)	**(52)**
Bord Gáis Energy (ii) (iii)	47	44	50	42	**28**
Energy Marketing & Trading (ii) (iii)	77	35	138	174	**70**
Upstream (ii) (iii)	256	567	178	90	**663**
	1,079	1,197	650	447	**948**
Operating profit from discontinued operations before exceptional items and certain re-measurements (ii) (iii)	161	195	251	252	**–**
Exceptional items and certain re-measurements after taxation	(407)	(416)	(1,531)	(520)	**866**
Profit/(loss) attributable to equity holders of the parent	328	183	(1,023)	41	**1,210**

	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	5.9	3.3	(17.8)	0.7	**20.7**
Adjusted earnings per ordinary share	12.5	11.2	7.3	6.5	**4.1**
Dividend per share in respect of the year	12.0	12.0	1.5	–	**–**

Assets and liabilities

31 December (restated) (v)	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**
Goodwill and other intangible assets	4,326	4,456	4,033	1,940	**1,161**
Other non-current assets (iv)	7,190	7,435	5,826	4,767	**6,040**
Net current assets/(liabilities)	1,705	284	(696)	622	**1,465**
Non-current liabilities (iv)	(9,789)	(8,227)	(7,474)	(8,072)	**(6,360)**
Net assets of disposal groups held for sale	–	–	106	2,125	**444**
Net assets	3,432	3,948	1,795	1,382	**2,750**
Net debt (v) (note 24)	(2,932)	(2,946)	(3,507)	(2,998)	**680**

Cash flows

Year ended 31 December (restated) (v)	2017 £m	2018 £m	2019 £m	2020 £m	**2021 £m**
Cash flow from operating activities before exceptional payments	2,016	2,182	1,548	1,532	**1,687**
Payments relating to exceptional charges in operating costs	(176)	(248)	(298)	(132)	**(76)**
Net cash flow from investing activities	32	(1,007)	(503)	(285)	**2,263**
Cash flow before cash flow from financing activities	1,872	927	747	1,115	**3,874**

(i) 2018 Group revenue included in business performance has been restated to include the net result of certain commodity purchases and sales trades that are deemed to be speculative in nature. Earlier periods have not been restated and therefore are not presented on a comparable basis.
(ii) Results have been restated to reflect the new operating structure of the Group. See note 1 for further details.
(iii) Adjusted operating profit has been restated to include the impact of business performance interest and taxation of joint ventures and associates.
(iv) Results from the years ended 2017 and 2018 figures have not been presented in line with IFRS 16: 'Leases'.
(v) Results have been restated to reflect the change in definition of Net Debt in 2021. See note 24 for further details.

Ofgem Consolidated Segmental Statement

Independent Auditor’s Report to the Directors of Centrica plc and its Licensees

In our opinion the accompanying statement (the ‘Consolidated Segmental Statement’ or ’CSS’) of Centrica plc and its Licensees for the year ended 31 December 2021 is prepared, in all material respects, in accordance with:

- the requirements of Ofgem’s Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator Ofgem; and
- the basis of preparation on pages 232 to 234.

We have audited the Consolidated Segmental Statement of Centrica plc and its Licensees (as listed in footnote (i)) (the Group) for the year ended 31 December 2021 in accordance with the terms of our engagement letter dated 7 December 2021. The Consolidated Segmental Statement has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem’s Standard Condition 19A and the Gas and Electricity Supply Licenses and Standard Condition 16B of the Electricity Generation Licences (together, the ‘Licences’) and the basis of preparation on pages 232 to 234.

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 CSS section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the CSS in the United Kingdom, 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.

Emphasis of matter – basis of accounting

We draw attention to pages 232 to 234 of the CSS which describes the basis of accounting. The CSS is prepared to assist the Company in complying with the requirements of Ofgem’s Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem. The basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the CSS may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the CSS, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the CSS 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 Group’s ability to continue as a going concern for a period of at least twelve months from when the CSS is 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 CSS and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the CSS does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the CSS 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 CSS. 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 the Directors

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 232 to 234 and for such internal control as the Directors determine is necessary to enable the preparation of the CSS that are free from material misstatement, whether due to fraud or error.

In preparing the CSS, the Directors are responsible for assessing the Group’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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the CSS

Our objectives are to obtain reasonable assurance about whether the CSS 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 this CSS.

A further description of our responsibilities for the audit of the CSS is located on the Financial Reporting Council’s website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Independent Auditor's Report to the Directors of Centrica plc and its Licensees

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 Group's industry and its control environment, and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Group operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the CSS. These included UK Companies Act and Ofgem's Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences; and
- do not have a direct effect on the CSS but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including significant component audit teams regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the CSS.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:
- Credit losses on financial assets within the Group's energy supply businesses ("Bad debt provisions"). Our audit approach for bad debt provisions was a combination of data analytics, substantive audit procedures and tests of internal control.
- Unbilled revenue recognition within the Group's energy supply businesses. Our audit approach for unbilled revenue involved testing internal controls and data analytics including recalculating unbilled revenue recorded by the Group's billing systems.

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 CSS;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel 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, and reviewing internal audit reports.

Use of this report

This report is made solely to the Group's Directors, as a body, in accordance with our engagement letter dated 7 December 2021 and solely for the purpose of assisting the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be displayed on the Centrica plc website www.centrica.com and within the December 2021 Annual Report & Accounts (see footnote (ii)) to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc, for our work or this report, or for the opinions we have formed. The materiality level we used in planning and performing our audit was £20 million.

The engagement partner on the audit resulting in this independent auditor's report is Daryl Winstone.

Deloitte LLP

23 February 2022

London

(i) British Gas Trading Limited, British Gas X Limited, Neas Energy Limited, Centrica Brigg Limited, Centrica Distributed Generation Limited, Centrica KPS Limited, Centrica PB Limited and EDF Energy Nuclear Generation Limited.

(ii) The maintenance and integrity of Centrica plc's website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

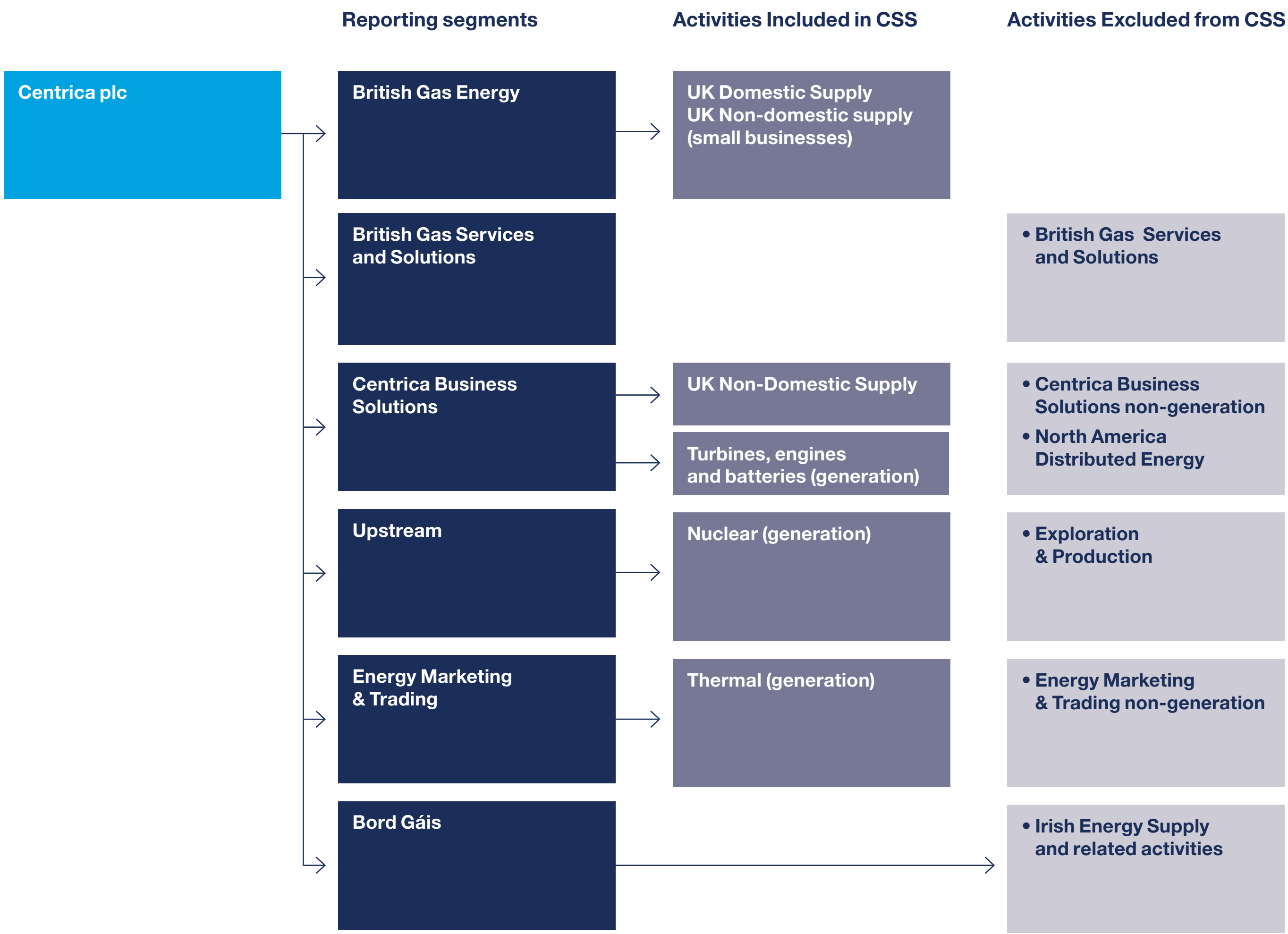
Introduction

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 227 to 236 are provided in order to comply with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information is prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Centrica plc Annual Report and Accounts for the year ended 31 December 2021, which have been prepared in accordance with the United Kingdom adopted International Accounting Standards, with International Financial Reporting Standards as issued by the IASB and in conformity with the requirements of the Companies Act 2006.

Centrica plc operational reporting structure

Below is a summary of the Centrica plc Group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Annual Report and Accounts 2021 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licensed activities (for example Services and Solutions and other trading activity unrelated to Generation or Supply) as illustrated below. The Centrica plc Annual Report and Accounts 2021 provides operating segment results in note 4. A full reconciliation between the relevant operating segment results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



Centrica plc operational reporting structure

Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Annual Report and Accounts 2021 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2021 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
British Gas X Limited [(i)]	Supply	100%
Neas Energy Limited [(i)]	Supply	100%
Centrica Brigg Limited	Exempt	100%
Centrica KPS Limited	Generation	100%
Centrica Distributed Generation Limited	Exempt	100%
Centrica PB Limited [(ii)]	Generation	100%
EDF Energy Nuclear Generation Limited [(iii)]	Generation	20% Associate

(i) British Gas X Limited and Neas Energy Limited hold supply licences but currently do not supply any UK customers.
(ii) Centrica PB Limited was disposed of by the Group on 31 July 2021.
(iii) The Group holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.

Ofgem consolidated segmental statement

Year ended 31 December 2021

	Unit	Electricity Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear	Thermal		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	**415.5**	**187.3**	**602.8**	**3,410.3**	**1,872.1**	**3,253.7**	**621.9**	**9,158.0**
Sales of electricity & gas	£m	383.4	165.3	**548.7**	3,403.9	1,872.1	3,247.9	621.9	**9,145.8**
Other revenue	£m	32.1	22.0	**54.1**	6.4	–	5.8	–	**12.2**
Total operating costs	£m	**(355.9)**	**(158.1)**	**(514.0)**	**(3,474.2)**	**(1,902.2)**	**(2,980.0)**	**(570.4)**	**(8,926.8)**
Direct fuel costs	£m	(82.7)	(83.1)	**(165.8)**	(1,278.1)	(812.6)	(1,344.6)	(400.6)	**(3,835.9)**
Direct costs	£m	(222.7)	(71.2)	**(293.9)**	(1,784.2)	(954.5)	(1,109.5)	(116.3)	**(3,964.5)**
Transportation costs	£m	(62.4)	(1.3)	**(63.7)**	(844.7)	(437.6)	(887.2)	(88.7)	**(2,258.2)**
Environmental and social obligation costs	£m	–	(47.4)	**(47.4)**	(848.0)	(471.5)	(134.5)	–	**(1,454.0)**
Other direct costs	£m	(160.3)	(22.5)	**(182.8)**	(91.5)	(45.4)	(87.8)	(27.6)	**(252.3)**
Indirect costs	£m	(50.5)	(3.8)	**(54.3)**	(411.9)	(135.1)	(525.9)	(53.5)	**(1,126.4)**
WACOF/E/G	£/MWh, P/th	**(10.0)**	**(46.6)**	**N/A**	**(73.9)**	**(70.1)**	**(47.7)**	**(66.8)**	**N/A**
EBITDA	£m	**59.6**	**29.2**	**88.8**	**(63.9)**	**(30.1)**	**273.7**	**51.5**	**231.2**
DA	£m	(119.1)	(11.0)	**(130.1)**	(43.0)	(13.3)	(51.5)	(5.4)	**(113.2)**
EBIT	£m	**(59.5)**	**18.2**	**(41.3)**	**(106.9)**	**(43.4)**	**222.2**	**46.1**	**118.0**
Volume	TWh, MThms	8.3	2.8	N/A	17.3	11.6	2,818.1	599.6	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	5,289.5	441.0	6,332.5	178.2	N/A

	Unit	Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**(3.1)%**	**(2.3)%**	**6.8%**	**7.4%**	**1.3%**
Supply PAT	**£m**	**(85.8)**	**(35.1)**	**178.4**	**37.1**	**94.6**
Supply PAT	**margin**	**(2.5)%**	**(1.9)%**	**5.5%**	**6.0%**	**1.0%**

2020 Summarised CSS

Year ended 31 December 2020

	Unit	Electricity Generation		Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear	Thermal		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	511.4	199.2	710.6	3,181.9	1,528.7	3,193.3	428.0	8,331.9
EBIT	£m	16.0	10.7	26.7	15.6	(69.8)	96.2	4.8	46.8

	Unit	Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin	0.5%	(4.6)%	3.0%	1.1%	0.6%
Supply PAT	£m	12.6	(56.5)	77.9	3.8	38.0
Supply PAT	margin	0.4%	(3.7)%	2.4%	0.9%	0.5%

Glossary of terms

- ‘WACOF/E/G’ is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes. For the Thermal sub-segment, the cost of carbon emissions is added to direct fuel costs before dividing by the generated volume.
- ‘EBITDA’ is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- ‘DA’ is depreciation and amortisation.
- ‘EBIT’ is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- ‘Supply EBIT margin’ is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- ‘Supply PAT’ is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- ‘Supply PAT margin’ is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- ‘Volume’ for Supply is supplier volumes at the meter point (i.e. net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (i.e. generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).
- ‘Average customer numbers/sites’ are calculated by adding average monthly customer numbers/sites (as defined in the basis of preparation) and dividing by 12.
- ‘Scheduling decisions’ means the decision to run individual generation units.
- ‘Responsible for interactions with the Balancing Market’ means interactions with the Balancing Mechanism in electricity.
- ‘Interacts with wider market participants to buy/sell energy’ means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under ‘Responsible for implementing hedging policy/makes decisions to buy/sell energy’.
- ‘Matches own generation with own supply’ means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- ‘Forecasts total system demand’ means forecasting total system electricity demand or total system gas demand.
- ‘Forecasts customer demand’ means forecasting the total demand of own supply customers.
- ‘Bears shape risk after initial hedge until market allows full hedge’ means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- ‘Bears short-term risk for variance between demand and forecast’ means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Business functions table

Year ended 31 December 2021 – analysis of business functions [i]

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral) [ii]
Holds unhedged positions (either short or long)	✓	✓	✓ [ii]
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	–	✓ [ii] [iii]
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓ [iv]	✓ [iv]	✓ [iv]
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.
(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market-facing legal entity. CEL forms part of our non-licensed element of Energy Marketing & Trading function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).
(iii) 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.
(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:

✓ Function resides and profit/loss recorded in segment.
– Neither function nor profit/loss reside in segment.

Basis of preparation

The following notes provide a summary of the basis of preparation of the 2021 submission.

The Ofgem CSS segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel, and volumes, in order to increase energy market transparency for consumers and other stakeholders.

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2021, included in the Centrica plc Annual Report and Accounts 2021 which have been prepared under IFRS as adopted by the United Kingdom (in accordance with paragraph 3/19A.3).

The CSS has been prepared on a going concern basis, as described in the Directors' Report and note 24 in the Centrica plc Annual Report and Accounts 2021.

For the Generation segment, we have included the financial results from all activities that relate to our generation licences. For clarity, the following judgements have been made:

- the Group has a 20% equity interest in Lake Acquisitions Limited, which owns seven nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our gross share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment;
- the Group had a long-term tolling contract in respect of the Spalding power station, that ended in Q4 2021 but did not specifically hold the generation licence. This arrangement provided the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We did not own the power station and the Group did not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a lease (under IFRS) up until its end date and therefore the financial result and volume for the year has been included in the Thermal sub-segment, within the Generation segment;
- Brigg and Roosecote power stations had their licences revoked on 2 July 2015 (at their request) because they no longer required an electricity generation licence and are now exempt. Whilst we do not specifically hold a generation licence for these power stations, the financial results from these businesses have been included in the Thermal sub-segment and hence within the Generation segment; and
- where power is purchased from third parties (for example from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment. In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

Domestic Supply represents the revenue and associated costs in supplying gas and electricity to residential customers in the UK. Non-Domestic Supply represents the revenue and associated costs in supplying gas and electricity to business customers in the UK.

As a voluntary disclosure, to aid comparability, a summarised 2020 CSS with margins has been included within the report. The 2020 CSS included the revenues and profits associated with the smart meter installation business within Domestic Supply. This amounted to Other Revenue of £42.0 million and EBIT of £3.5 million for Domestic Electricity Supply and Other Revenue of £34.6 million and EBIT of £7.8 million for Domestic Gas Supply. The 2021 CSS does not include these revenues and profits because smart meter installation is not deemed to relate to a licensed supply activity. (Note that this is distinct from smart meter rental or usage costs which are included in Supply in both the 2020 and 2021 CSS.)

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2021, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from sales of electricity and gas for the Supply segment is recognised on the basis of electricity and gas supplied during the year to both domestic and non-domestic customers.
- Revenue from sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from Domestic Supply revenues directly, charged specifically to each fuel.
- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.

Basis of preparation

- The financial risks and rewards of owning and using the Group's power stations reside entirely in the reported Generation segment.
- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £6.4 million (2020: £51.1 million) in Domestic Electricity Supply and £5.8 million (2020: £41.7 million) in Domestic Gas Supply primarily relating to New Housing Connections and, for 2020, smart meter installations;
  - £22.0 million (2020: £22.8 million) in Thermal principally relating to Supplementary Balancing Reserve (SBR), Short Term Operating Reserve (STOR), Triad revenue and Capacity Market income; and
  - £32.1 million (2020: £48.6 million) revenue in Nuclear not directly related to energy sales, such as capacity market income and provision of miscellaneous services.

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of bilateral, over-the-counter (OTC) and exchange-based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis. The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact Domestic and Non-Domestic purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for turbines/engines is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
OTC	Broker supported market of standardised products, predominantly performed via screen-based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal OTC price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

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- For Generation this represents a proxy for the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the Generation business. Gas for turbines/engines is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost, the energy element of reconciliation by difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of bilateral, OTC and exchange-based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using annually updated fixed percentages based on the historical split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (for example APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

Basis of preparation

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £37.5 million (2020: £38.5 million) incurred by Gas Domestic Supply, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas.
- Environmental and social obligation costs for Domestic Supply include ROCs, FIT, ECO and UK Capacity Market costs. Non-Domestic Supply includes the cost of LECs, ROCs, FIT and UK Capacity Market costs. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT, ROCs and UK Capacity Market costs are included within Electricity, and ECO is allocated between Electricity and Gas based on the relevant legislation. Environmental and social obligation costs for the Generation segment relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs for Generation include employee and maintenance costs.
- Other direct costs for Supply include brokers' costs and sales commissions when the costs have given rise directly to revenue, that is, producing a sale. They also include Elexon and Xoserve market participation and wider smart metering programme costs.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt, costs to serve, IT, HR, finance, property, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers, which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges but excluding bad debt costs) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic). Bad debt costs are allocated between Electricity and Gas on the basis of actual bad debt cost by individual contract in the billing system (Domestic) and on the basis of revenues (Non-Domestic).

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT.
- For the Domestic Supply segment, customer numbers are stated based on the number of district meter point reference numbers (MPRNs) and meter point administration numbers (MPANs) in our billing system (for gas and electricity respectively), where it shows an active point of delivery and a meter installation. As a result, our customer numbers do not include those meter points where a meter may recently have been installed but the associated industry registration process has yet to complete, as the meter information will not be present in our billing system.
- For the Non-Domestic Supply segment, sites are based on the number of distinct MPRNs and MPANs in our billing system for gas and electricity respectively.

Transfer pricing for electricity, gas and generation licensees in accordance with paragraph 4(d)/19A.4(d)

There are no specific energy supply agreements between the Generation and Supply segments.

The Group continues to ensure transfer pricing methodologies are appropriate and up to date. In order to meet this requirement, the Group ensured all transfer pricing and cost allocation methodologies were internally reviewed, updated and collated in a central repository.

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2021 principally arises from the Group's interests in the entities listed on page 228.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our gross share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line-by-line within the relevant item of the CSS.

Exceptional items and certain re-measurements

Restructuring costs and impairment charges that have been identified as exceptional items, and mark-to-market adjustments (alongside onerous supply contract provisions) in the Centrica plc Annual Report and Accounts 2021, are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2021.

A reconciliation of the Segmental Statement revenue, EBIT and depreciation to the 2021 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraphs 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

Reconciliation to Centrica plc Annual Report and Accounts

The reconciliation refers to the segmental analysis of the 2021 Centrica plc Annual Report and Accounts in note 4.

	Notes	Generation segment 2021	Supply segment – Domestic – Electricity 2021	Supply segment – Domestic – Gas 2021	Supply segment – Non-Domestic – Electricity 2021	Supply segment – Non-Domestic – Gas 2021
Revenue (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)		Upstream	British Gas Energy		Centrica Business Solutions	
Segment revenue		2,282.0	7,512.6		1,980.8	
Less non-UK and non-Generation/Supply	1	(1,898.7)	–		(301.5)	
Segment revenue after non-UK and non-Generation/Supply		383.3	7,512.6		1,679.3	
Reallocate British Gas Non-Domestic Supply element	2	–	(848.6)		848.6	
Reallocate Centrica Business Solutions Generation element	2	33.9	–		(33.9)	
Add Generation reported in Energy, Marketing & Trading	3	153.4	–		–	
Segment revenue after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy Marketing & Trading to Upstream		570.6	6,664.0		2,494.0	
Electricity and Gas allocation	4	–	3,410.3	3,253.7	1,872.1	621.9
Include share of JVs and associates	5	332.2	–	–	–	–
Exclude intra-segment revenues	6	(300.0)	–	–	–	–
Ofgem Consolidated Segmental Statement		**602.8**	**3,410.3**	**3,253.7**	**1,872.1**	**621.9**
EBIT (£m)						
Centrica plc Annual Report and Accounts Segmental Analysis (i)						
Segment EBIT		663.5	118.3		(51.7)	
Less non-UK and non-Generation/Supply	1	(701.7)	–		60.8	
Segment EBIT after non-UK and non-Generation/Supply		(38.2)	118.3		9.1	
Reallocate British Gas Non-Domestic Supply element	2	–	(3.0)		3.0	
Reallocate Centrica Business Solutions Generation element	2	9.4	–		(9.4)	
Add Generation reported in Energy, Marketing & Trading	3	8.8	–		–	
Segment EBIT after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy, Marketing & Trading to Upstream		(20.0)	115.3		2.7	
Electricity and Gas allocation	4	–	(106.9)	222.2	(43.4)	46.1
Exclude share of JVs' and associates' interest and tax	5	(21.3)	–	–	–	–
Ofgem Consolidated Segmental Statement		**(41.3)**	**(106.9)**	**222.2**	**(43.4)**	**46.1**

Reconciliation to Centrica plc Annual Report and Accounts

Depreciation and amortisation (£m)

	Notes	Generation segment 2021	Supply segment: Domestic Electricity 2021	Supply segment: Domestic Gas 2021	Supply segment: Non-Domestic Electricity 2021	Supply segment: Non-Domestic Gas 2021
Centrica plc Annual Report and Accounts Segmental Analysis [i]		Upstream	British Gas Energy		Centrica Business Solutions	
Segment depreciation and amortisation		(486.0)	(95.5)		(47.6)	
Less non-UK and non-Generation/Supply	1	486.0	–		27.4	
Segment depreciation and amortisation after non-UK and non-Generation/Supply		–	(95.5)		(20.2)	
Reallocate British Gas Non-Domestic Supply element	2	–	1.0		(1.0)	
Reallocate Centrica Business Solutions Generation element	2	(2.5)	–		2.5	
Add Generation reported in Energy, Marketing & Trading	3	(8.5)	–		–	
Segment depreciation and amortisation after non-UK and non-Generation/Supply and reallocation of Generation element from Centrica Business Solutions and Energy, Marketing & Trading to Upstream		(11.0)	(94.5)		(18.7)	
Electricity and Gas allocation	4	–	(43.0)	(51.5)	(13.3)	(5.4)
Include share of JVs and associates	5	(119.1)	–	–	–	–
Ofgem Consolidated Segmental Statement		**(130.1)**	**(43.0)**	**(51.5)**	**(13.3)**	**(5.4)**

(i) The tables reconcile the Generation segment to Upstream, the Domestic Supply segment to British Gas Energy and the Non-Domestic Supply segment to Centrica Business Solutions from note 4 to the 2021 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Notes:

1. Centrica Business Solutions includes Business Services and Solutions and Upstream includes Exploration and Production, which are non-licensed activities and have been deducted to reconcile these CSS numbers.
2. British Gas Energy includes supply activity to certain companies fulfilling the Non-Domestic definition. Centrica Business Solutions includes generation activity from the Group's turbines, engines and battery assets.
3. Energy, Marketing & Trading includes Generation activity associated with the Spalding power station.
4. The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT) and Depreciation (including amortisation) as provided in note 4 of the Centrica plc Annual Report and Accounts 2021, has been split between Electricity and Gas.
5. £332.2 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS for Nuclear revenues. £(124.4) million of EBIT in the Generation segment relates to profits from associates for Nuclear. Additionally, costs relating to the Group's share of joint ventures and associates: £82.7 million direct fuel costs, £222.7 million direct costs, £32.1 million indirect costs and £119.1 million depreciation and amortisation are included. Also, note that financing costs and tax of £(21.3) million are initially included in the Upstream segmental EBIT associated with nuclear. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2021 in notes 6 and 14.
6. £300.0 million of intra-segment revenues between the joint ventures and associates and the Generation segment (included in the £332.2 million of joint venture and associate revenues) are excluded from the CSS.

Shareholder Information

General enquiries

Centrica's share register is administered and maintained by Equiniti, our Registrar, whom you can contact directly if you have any questions about your shareholding which are not answered here or on our website. You can contact Equiniti using the following details:

Address: Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA, UK

Telephone: 0371 384 2985*
Outside the UK: +44 (0)121 415 7061
Textphone: 0371 384 2255*
Outside the UK: +44 (0)121 415 7028
Contact: help.shareview.co.uk
Website: equiniti.com

* Calls to an 03 number cost no more than a national rate call to an 01 or 02 number. Lines open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales.

When contacting Equiniti or registering via shareview.co.uk, you should have your shareholder reference number to hand. This can be found on your share certificate, dividend confirmation or any other correspondence you have received from Equiniti.

If you hold less than 2,500 shares you will be able to change your registered address or set up a dividend mandate instruction over the phone; however, for security reasons, if you hold more than 2,500 shares, you will need to put this in writing to Equiniti.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment at a convenient time. Details of this service can be found at shareview.co.uk

American Depositary Receipt (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available on our website or please contact:

Regular mail delivery address: BNY Mellon Shareowner Services, PO Box 505000, Louisville, KY 20233-5000, USA

Overnight, certified, registered delivery address: BNY Mellon Shareowner Services, 462 South 4th Street, Suite 1600, Louisville, KY 40202, USA

Email: shrrelations@cpshareownerservices.com

Website: mybnymdr.com

Telephone: +1 888 269 2377 (toll-free in the US)

Outside the US: +1 201 680 6825

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website, centrica.com. Receiving communications and documents electronically saves your Company money and reduces our environmental impact. If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Accounts, on the day it is published.

You will also receive alerts to let you know that you can cast your Annual General Meeting (AGM) vote online. You can manage your shareholding online by registering at shareview.co.uk, a free online platform provided by Equiniti, which allows you to:

- view information about your shareholding;
- have your dividend paid into your bank account;
- update your personal details; and
- appoint a proxy for the AGM.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Financial Services Limited. However, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and gives you:

- low cost share dealing rates (full details of which are available on centrica.com, together with dealing charges);
- quicker settlement periods for buying and selling shares; and
- no paper share certificates to lose.

centrica.com

The Shareholder Centre on our website contains a wide range of information including a dedicated investors section where you can find further details about shareholder services including:

- share price information;
- dividend history;
- telephone and internet share dealing;
- downloadable shareholder forms; and
- taxation.

This Annual Report and Accounts can also be viewed online by visiting centrica.com/ar21.

ShareGift

If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate them to ShareGift, a registered charity, which provide a free service to enable you to dispose charitably of such shares.

More information on this service can be found at sharegift.org or by calling +44 (0)20 7930 3737

Additional Information – Explanatory Notes (Unaudited)

Definitions and reconciliation of adjusted performance measures

Centrica's 2021 consolidated Financial Statements include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted revenue, adjusted gross margin, adjusted operating profit, adjusted earnings and free cash flow have been defined and reconciled separately in notes 2, 4 and 10 to the Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

EBITDA

EBITDA is a business performance measure of operating profit, after adjusting for depreciation and amortisation. It provides a performance measure in its own right, and provides a bridge between the Income Statement and the Group's key cash metrics.

Year ended 31 December	Note	2021 £m	2019 £m	Change
Continuing group operating profit/(loss)	I/S	**954**	(362)	
Exceptional items	7	**(1,247)**	1,593	
Certain re-measurements before taxation	7	**1,241**	(784)	
Share of losses/(profits) of joint ventures and associates, net of interest and taxation(i)	I/S	**103**	(23)	
Depreciation and impairments of PP&E(i)	4	**583**	659	
Amortisation, write-downs and impairments of intangibles(i)	4	**216**	253	
Continuing EBITDA		**1,850**	1,336	(38%)
Discontinued operations EBITDA		**–**	299	
Group total EBITDA		**1,850**	1,635	(13%)

(i) These line items relate to business performance only.

The below table shows how continuing EBITDA reconciles to free cash flow:

Year ended 31 December	Notes	2021 £m	2020 £m
Continuing EBITDA		**1,850**	1,336
Group operating profit/(loss) including share of joint ventures and associates, from exceptional items and certain re-measurements	I/S	**6**	(809)
Share of losses of joint ventures and associates, net of interest and taxation, from exceptional items and certain re-measurements	I/S	**–**	2
Depreciation, amortisation, write downs, impairments and write-backs, from exceptional items and certain re-measurements		**(1,214)**	1,305
Loss on disposals	C/F	**28**	28
Increase in provisions	C/F	**2,434**	46
Cash contributions to defined benefit schemes in excess of than service cost income statement charge	C/F	**(388)**	(42)
Employee share scheme costs	C/F	**12**	34
Unrealised gains arising from re-measurement of energy contracts	C/F	**(1,159)**	(666)
Exceptional charges reflected directly in operating profit	C/F	**12**	49
Net movement in working capital	C/F	**246**	(204)
Taxes paid	C/F	**(140)**	(2)
Payments relating to exceptional charges in operating profit	C/F	**(76)**	(120)
Net cash flow from continuing operating activities		**1,611**	957
Purchase of businesses, net of cash acquired	C/F	**(14)**	–
Sale of businesses	C/F	**70**	43
Purchase of property, plant and equipment and intangible assets	C/F	**(420)**	(489)
Sale of property, plant and equipment and intangible assets	C/F	**36**	–
Disposal of/(investment in) joint ventures and associates	C/F	**2**	(10)
Dividends received from joint ventures and associates	C/F	**2**	62
Receipt of sub-lease capital payments	C/F	**–**	3
UK Pension deficit payments	4	**368**	175
Movements in variation margin and collateral	4	**(481)**	(56)
Free cash flow from continuing operations	4	**1,174**	685

Definitions and reconciliation of adjusted performance measures

Profit/(loss) on disposals

Year ended 31 December	Notes	2021 £m	2020 £m
Loss on disposal	C/F	**28**	28
Less: Exceptional loss on disposal	7	**(31)**	(32)
(Profit) on disposals relating to business performance		**(3)**	(4)

Group net investment

With an increased focus on cash generation, capital discipline and reducing net debt, Group net investment provides a measure of the Group's capital expenditure from a cash perspective and allows the Group's capital discipline to be assessed.

Year ended 31 December	Notes	2021 £m	2020 £m	Change
Capital expenditure (including small acquisitions)(i)		**434**	489	
Net disposals(ii)		**(108)**	(33)	
Group net investment		**326**	456	(29%)
Dividends received from joint ventures and associates	C/F	**(2)**	(62)	
Receipt of sub-lease capital payments	C/F	**–**	(3)	
Interest received	C/F	**(2)**	(7)	
Sale and settlement of securities	C/F	**3**	(121)	
Net cash flow used in continuing investing activities	C/F	**325**	263	24%

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).
(ii) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of (disposal of)/investments in joint ventures and associates. See table (b).

Group net investment is capital expenditure including acquisitions less net disposals. It excludes cash flows from investing activities not associated with capital expenditure as detailed in the table above.

(a) Capital expenditure (including small acquisitions)

Year ended 31 December	Notes	2021 £m	2020 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**420**	489	
Purchase of businesses, net of cash acquired	C/F	**14**	–	
Less: material acquisitions (>£100 million)		**–**	–	
Capital expenditure (including small acquisitions)		**434**	489	(11%)

(b) Net disposals

Year ended 31 December	Notes	2021 £m	2020 £m	Change
Sale of businesses	C/F	**(70)**	(43)	
Sale of property, plant and equipment and intangible assets	C/F	**(36)**	–	
(Disposal of)/investments in joint ventures and associates	C/F	**(2)**	10	
Net disposals		**(108)**	(33)	227%

Definitions and reconciliation of adjusted performance measures

The following tables provide additional information to help readers when reconciling between different parts of the consolidated Group Financial Statements, and the Group Cash Flow Statement.

Reconciliation from free cash flow to change in net debt

Year ended 31 December	Notes	2021 £m	2020 £m
Free cash flow from continuing operations	4	**1,174**	685
Free cash flow from discontinued operations	4	**2,588**	376
Group total free cash flow	4	**3,762**	1,061
Financing interest paid(i)		**(233)**	(210)
Interest received	C/F	**2**	7
UK Pension deficit payments	4	**(368)**	(175)
Proceeds from sale of forfeited share capital/(payments for own shares)	C/F	**1**	(30)
Movements in variation margin and collateral(i)		**481**	101
Cash flows affecting net debt		**3,645**	754
Discontinued operations non-cash movements in net debt		**32**	–
Continuing Operations non-cash movements in net debt		**1**	(245)
Change in net debt		**3,678**	509
Opening net debt	24	**2,998**	3,507
Closing net debt	24	**(680)**	2,998

(i) Financing interest paid includes £(8) million, and movements in variation margin and collateral includes £45 million, that relates to discontinued operations.

Payments relating to exceptional charges in operating costs

Year ended 31 December	Notes	2021 £m	2020 £m
Restructuring costs incurred during the year and utilisation of prior year liabilities		**76**	120
Payments relating to exceptional charges in continuing operating costs	C/F	**76**	120

Depreciation, amortisation, write-downs, impairments and write-backs

Year ended 31 December	Notes	2021 £m	2020 £m
Movement from depreciation, amortisation, write-downs, impairments and write-backs, from exceptional items (continuing) included in the Group Cash Flow Statement	7	**(1,214)**	1,305
Made up of:			
(Write-back)/impairment of E&P assets	7	**(598)**	634
(Write-back)/impairment of power assets	7	**(747)**	506
Impairment of Centrica Business Solutions	7	**123**	78
Impairment of Centrica Home Solutions	7	**–**	72
Impairment of property	7	**8**	15
Movement from depreciation, amortisation, write-downs, impairments and write-backs, from business performance (continuing) included in the Group Cash Flow Statement		**799**	912
Made up of:			
Business Performance PP&E depreciation	4	**580**	657
Business Performance PP&E impairments	4	**3**	2
Business Performance intangibles amortisation	4	188	226
Business Performance intangibles impairments and write-downs	4	3	3
Business Performance E&E write-downs	4	25	24
Movement from depreciation, amortisation, write-downs, impairments and write-backs (continuing) included in the Group Cash Flow Statement		**(415)**	2,217

Definitions and reconciliation of adjusted performance measures

Reconciliation in receivables and payables to Group Cash flow Statement

Year ended 31 December	Notes	2021 £m	2020 £m
Receivables opening balance	B/S	**2,946**	4,993
Less receivables closing balance	B/S	**(6,114)**	(2,946)
Payables opening balance	B/S	**(3,836)**	(5,685)
Less payables closing balance	B/S	**7,633**	3,836
Net reduction in receivables and payables		**629**	198
Non-cash changes, and other reconciling items:			
Transferred to held for sale and business disposals		**(29)**	(281)
Movement related to discontinued operations prior to transfer to held for sale		**–**	(48)
Movement in capital creditors		**10**	61
Movement in ROCS and emission certificate intangible assets		**(8)**	(92)
Other movements (including foreign exchange movements)		**5**	(46)
Non-cash charges, and other reconciling items		**(22)**	(406)
Movement in trade and other receivables, trade and other payables and contract related assets relating to business performance	C/F	**607**	(208)

Pensions

Year ended 31 December	Notes	2021 £m	2020 £m
Cash contributions to defined benefit schemes in excess of service cost income statement charge	C/F	**(388)**	(42)
Employer contributions	22	**420**	241
Contributions by employer in respect of employee salary sacrifice arrangements	22	**20**	28
Total current service cost	22	**(105)**	(107)
Past service credit	22	**1**	–
Termination benefit/(cost)	22	**52**	(120)

Discontinued operations free cash flow

Year ended 31 December	Notes	2021 £m	2020 £m
Discontinued operations free cash flow	4	**2,588**	376
Movement in variation margin and collateral		**–**	45
		2,588	421
Net cash flow from discontinued operating activities	C/F	**–**	443
Net cash flow from discontinued investing activities	C/F	**2,588**	(22)
		2,588	421

Other Information

People and Planet – Performance Measures

In 2021, we engaged DNV Business Assurance Services UK Limited (DNV) to conduct an independent limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. DNV has provided an unqualified opinion in relation to five KPIs that are identified with the symbol '†' and feature on pages 32, 35, 242 and 244. It is important to read the responsible business information in the Annual Report and Accounts 2021 in the context of DNV's full limited assurance statement and Centrica's Basis of Reporting, which are available at centrica.com/assurance.

Read more about our People & Planet Plan on Pages 28 to 37

Read more about our wider non-financial performance at centrica.com/datacentre

Read more about our SASB disclosure at centrica.com/peopleandplanet

Progress against our People & Planet Plan[i]

Key: Progress against goals ▲ On track ▼ Behind

Goal	Milestone	2021 Progress	2020 Progress
Create an engaged team that reflects the full diversity of the communities we serve by 2030 – this means all company and senior leaders to be: • 47% women • 14% ethnically diverse • 15% disability • 3% LGBTQ+ • 3% ex-service	By the end of 2022: • 30% women • 13% ethnically diverse • 4% disability • 3% LGBTQ+ • 3% ex-service	**All company:[ii]** • **28% women** ▼ • **12% ethnically diverse** ▼ • **1% disability** ▼ • **2% LGBTQ+** ▲ • **2% ex-service** ▲ **Senior leaders:[ii]** • **28% women** ▼ • **9% ethnically diverse** ▼ • **1% disability** ▼ • **1% LGBTQ+** ▼ • **2% ex-service** ▲	All company:[ii] • 28% women ▼ • 13% ethnically diverse ▲ • 1% disability ▲ • 1% LGBTQ+ ▲ • 1% ex-service ▲ Senior leaders:[ii] • 28% women ▼ • 13% ethnically diverse ▲ • 1% disability ▲ • 1% LGBTQ+ ▲ • 1% ex-service ▲
Recruit 3,500 apprentices and provide career development opportunities for under-represented groups by 2030 (baseline: 2021)	1,000 apprentices by the end of 2022	**600 apprentices** ▲	–[iii]
Inspire colleagues to give 100,000 days to build inclusive communities by 2030 (baseline: 2019)	20,000 days by the end of 2022	**10,889 days** ▼	10,592 days[iv] ▲
Help our customers be net zero by 2050[v] (baseline: 2019)	28% carbon intensity reduction by the end of 2030	**18%† reduction** ▲	18% reduction ▲
Be a net zero business by 2045[vi] (baseline: 2019)	40% carbon reduction by the end of 2034	**82% reduction** ▲	18% reduction ▲

† Included in DNV's independent limited assurance report referenced at the top of this page.
(i) Our People & Planet Plan was introduced in 2021 to accelerate action in areas where we can make the greatest difference.
(ii) Ethnicity based on 65% of colleagues in 2020 and 2021, who voluntarily disclosed that they were from a Black, Asian, Mixed/Multiple or other ethnic group across the UK and North America. Senior leaders include colleagues above general management and spans senior managers, the Centrica Leadership Team and the Board.
(iii) Our apprenticeship goal was introduced in 2021 which means there is no performance for 2020.
(iv) Restated due to availability of improved data.
(v) Net zero goal measures the carbon intensity of our customers' energy use including electricity and gas with a baseline of 183gCO_2e/kWh, normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy. Target aligned to the Paris Accord and based on science, corresponding to a well below 2°C pathway initially and 1.5°C by mid-century.
(vi) Net zero goal measures scope 1 (direct) and 2 (indirect) greenhouse gas emissions based on operator boundary which excludes Spirit Energy and Nuclear emissions, and is normalised to reflect acquisitions and divestments in line with changes in Group structure and therefore excludes Direct Energy, against a baseline of 1,146,601mtCO_2e. Target aligned to the Paris Accord and based on science.

Progress against our Foundations

People

Metric	2021	2020	What's next
Customers			
Brand net promoter score (NPS)[i]	**+13.0[ii]**	+8.7[iii]	Continue to deliver new services and solutions that help our customers live sustainably, simply and affordably
Complaints per 100,000 customers[i]	**4,929[iv]**	3,040[v]	Maintain focus on driving down complaints by improving customer experience
Vulnerable customers helped through the UK Warm Home Discount scheme	**535,866**	561,065[vi]	Ensure customers in vulnerable circumstances receive the help they need to stay warm, safe and debt-free
Customer safety incident frequency rate per 1,000,000 jobs completed	**3.03**	3.85	Consistently follow existing controls as well as encourage customers to maintain distance from work areas

(i) Measure linked to Executive Director remuneration arrangements. See pages 76 and 78 for more information. Direct Energy is now classified as a discontinued operation and has been excluded from 2020 performance.
(ii) Aggregated scores across British Gas +11.6, Hive +39.0, Bord Gáis Energy +23.0, and weighted by customer numbers.
(iii) Aggregated scores across British Gas +7.7, Hive +40.0, Bord Gáis Energy -5.0, and weighted by customer numbers.
(iv) Aggregated scores across British Gas Energy 7,260 as reported to Ofgem, British Gas Services and Solutions 3,428 as reported to the FCA, Bord Gáis Energy 509 as reported to the Commission for Regulation of Utilities, Water and Energy (CRU), and Centrica Business Solutions 102, and weighted by customer accounts.
(v) Aggregated scores across British Gas Energy 6,916 as reported to Ofgem, British Gas Services and Solutions 3,563 as reported to the FCA, Bord Gáis Energy 513 as reported to the Commission for Regulation of Utilities, Water and Energy (CRU) and Centrica Business Solutions 90, and weighted by customer accounts.
(vi) Restated due to availability of improved data.

Metric	2021	2020	What's next
Colleagues			
Colleague engagement[i] [ii]	**55% favourable**	41% favourable	Strive to achieve 70% by the end of 2023 by improving colleague experience, including connecting colleagues with our purpose and supporting them to perform at their best
Gender pay gap[iii]	**30% median** **20% mean**	35% median 21% mean	Drive action through our People & Planet Plan to create an engaged team that reflects the full diversity of the communities we serve
Gender bonus gap[iv]	**10% median** **31% mean**	5% median 26% mean	
Ethnicity pay gap[iii] [v]	**13% median** **0% mean**	14% median 8% mean	
Ethnicity bonus gap[iv] [v]	**12% median** **4% mean**	16% median 14% mean	
Retention	**72%**	85%	Improve retention through our focus on talent development whilst providing a supportive and inclusive culture
Total recordable injury frequency rate (TRIFR) per 200,000 hours worked[i]	**1.07**	1.04	Drive down TRIFR and LTIFR by keeping safety front-of-mind and reinforcing a strong safety culture whilst advancing controls and monitoring
Lost time incident frequency rate (LTIFR) per 200,000 hours worked	**0.72**	0.72	
Process safety incident frequency rate (Tier 1 and 2) per 200,000 hours worked[i]	**0.20**	0.00	Continue to ensure robust operational controls and operator competencies, timely safety-critical maintenance programmes and effective performance management
Significant process safety events (Tier 1)	**0**	0	
Fatalities	**0**	0	Maintain zero fatalities

(i) Measure linked to Executive Director remuneration arrangements. See pages 76 and 78 for more information. Direct Energy is now classified as a discontinued operation and has been excluded from 2020 performance.
(ii) Measured through responses to annual survey asking colleagues to rate their level of advocacy, pride, loyalty and satisfaction.
(iii) Based on hourly rates of pay for all employees at full pay (including bonus and allowances) at the snapshot dates of 5 April 2020 and 2021. Read our Gender and Ethnicity Pay Statement to find out more at centrica.com/paygap.
(iv) Includes anyone receiving a bonus during the 12-month period leading up to the pay gap snapshot date and who are still employed on the snapshot date.
(v) Based on 65% of colleagues who confirmed whether they are from a Black, Asian, Mixed/Multiple or other ethnic group.

Metric	2021	2020	What's next
Communities			
Total community contributions	**£305.82 million**[(i)]	£217.02 million[(ii)]	Help create more inclusive communities and grow colleague engagement via local charity activity and partnerships including the Trussell Trust, British Gas Energy Trust and Focus Ireland
Average sustainability risk score (score out of 100)[(iii)]	**68 (low risk)**	54 (low risk)	Continue to monitor and raise standards across our supply chain to reduce risk, focusing on enhanced engagement and controls
Ethnical site inspections undertaken for higher risk suppliers	**7**	5	
Colleagues committed to Our Code	**98%**	96%	Ensure all colleagues uphold Our Code as part of our commitment to doing the right thing and acting with integrity

(i) Comprises £304.82 million in mandatory and £0.04 million in voluntary contributions to support vulnerable customers, alongside £0.96 million in charitable donations which includes £0.21 million in contributions from third parties such as colleague fundraising.
(ii) Comprises £213.61 million in mandatory and £0.49 million in voluntary contributions to support vulnerable customers, alongside £2.93 million in charitable donations which includes £0.29 million in contributions from third parties such as colleague fundraising. Sum of constituent parts exceed total due to rounding. Restated due to availability of improved data.
(iii) A score near 100 is low risk. High-risk companies have limited or no tangible actions on sustainability, medium-risk companies take partial tangible action on selected sustainability issues, low-risk companies have a structured sustainability approach with policies and action to manage major sustainability issues while lowest-risk companies have strong sustainability credentials and reporting embedded across their business.

Planet

Metric	2021	2020	What's next
Carbon			
Total carbon emissions (scope 1 and 2)[(i)]	**226,904tCO_2e†**[(ii)]	989,546tCO_2e[(iii)(iv)(v)]	Measure and reduce our emissions and those of our customers through our People & Planet Plan, whereby we aim to be a net zero business by 2045 and help our customers be net zero by 2050
Scope 1 emissions	**222,064tCO_2e†**	982,469tCO_2e[(iv)(v)]	
Scope 2 emissions	**4,840tCO_2e†**[(vi)]	7,077tCO_2e[(iv)(v)(vii)]	
Scope 3 emissions[(viii)]	**23,097,452tCO_2e**	116,947,439tCO_2e[(iv)]	
Total carbon intensity by revenue[(ix)]	**15tCO_2e/£m**[(x)]	41tCO_2e/£m[(iv)(xi)]	Continue to analyse the impact of our strategy on decoupling carbon from value creation
Total energy use	**1,142,249,379kWh†**[(xii)]	5,165,166,409kWh†[(iv)(v)(xiii)]	Remain focused on energy efficiency as we strive to be a net zero business by 2045
Water, waste and non-compliance			
Total water use	**66,762m^3**	174,979m^3[(iv)]	Effectively monitor, manage and reduce our water use and waste production, as well as our incidence of environmental non-compliance
Total waste generated	**12,756 tonnes**	14,557 tonnes[(iv)]	
Environmental non-compliance[(xiv)]	**6**	6[(iv)]	

† Included in DNV's independent limited assurance report. See page 242 or centrica.com/assurance for more.
(i) Comprises scope 1 and scope 2 emissions as defined by the Greenhouse Gas Protocol.
(ii) Comprises UK 162,460tCO_2e and non-UK 64,444tCO_2e.
(iii) Comprises UK 203,955tCO_2e and non-UK 785,590tCO_2e.
(iv) Restated due to changes in methodology following a move from equity to operational control to align with the more commonly used organisational boundary approach set out by the WRI/WBCSD Greenhouse Gas Protocol and means that Spirit Energy and Nuclear are not included, whilst scope 2 has moved to a market-based approach to better reflect our decisions on where we source imported power.
(v) Previous figures included in DNV's limited assurance scope for the Annual Report 2020 was 1,925,747tCO_2e for total carbon emissions, 1,885,449tCO_2e for scope 1, 40,299tCO_2e for scope 2 and 8,331,421,261kWh for total energy use.
(vi) Location-based 10,352tCO_2e.
(vii) Location-based 13,687tCO_2e.
(viii) Includes emissions from the following scope 3 categories defined by the Greenhouse Gas Protocol: purchased goods and services, capital goods, fuel and energy related activities, waste generated in operations, business travel, employee commuting, upstream and downstream transportation and distribution, use of sold product and investments. All emissions are calculated in line with the methodologies set out by the Greenhouse Gas Protocol's technical guidance, apart from working from home emissions which are based on methodology set out in EcoAct's homeworking emissions whitepaper.
(ix) Carbon intensity of revenue is employed as our intensity measure because it is the most meaningful intensity measure for our diverse business and is the most widely used and understood measure for climate-related stakeholders such as CDP. Metric based on statutory revenue.
(x) Comprises UK 15tCO_2e/£m and non-UK 17tCO_2e/£m.
(xi) Comprises UK 21tCO_2e/£m and non-UK 54tCO_2e/£m.
(xii) Comprises UK & Offshore 739,687,327kWh and non-UK energy use 402,562,052kWh.
(xiii) Comprises UK & Offshore 866,199,955kWh and non-UK energy use 4,298,966,454kWh.
(xiv) Includes breaches of environmental authorisation including permit, licence and consent coupled with wider environmental legislation where we are either required to notify the regulator or where an authority or regulator is involved. The majority of incidents relate to offshore activities.

Glossary

$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
Acas	The Advisory, Conciliation and Arbitration Service is an independent public body that receives funding from the UK Government to provide employees and employers with free impartial advice on workplace rights and to help resolve disputes
AGM	Annual General Meeting
AIP	Annual Incentive Plan
bcf	Billion cubic feet
CHP	Combined heat and power
CO_2e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO_2e (carbon dioxide equivalent)
CPI	Consumer Price Index
CSS	Consolidated Segmental Statement
CUPS DB	Centrica Unfunded Pension Scheme defined benefit
CUPS DC	Centrica Unfunded Pension Scheme defined contribution
Data analytics	The process of examining data sets to draw conclusions and insights about the information they contain
DEEPAC	Direct Energy Employee Political Action Committee
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBT	Employee Benefit Trust
EP	Economic profit
EPS	Earnings per share
ESG	Environmental, Social & Governance
EU	European Union
FCA	Financial Conduct Authority
FCF	Free cash flow
FRS	Financial Reporting Standards
GDPR	General Data Protection Regulation
GMB	Trade union
GPS	Global Positioning System
Green jobs	Jobs that have a direct positive impact on the planet
GW	Gigawatt
GWh	Gigawatt hours
HSES	Health, Safety, and Environmental Services
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KPI	Key performance indicators
kWh	Kilowatt hour
LGBTQ+	Lesbian, Gay, Bisexual, and Trans plus. The 'plus' is inclusive of other groups such as asexual, intersex and questioning

LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate
mmboe	Million barrels of oil equivalent
MThms	Million therms
MSA	Modern Slavery Act 2015
Net zero	The point at which there is a balance between human-related carbon dioxide (CO_2) being emitted into the atmosphere and those taken out
NGO	Non-governmental organisation
NPS	Net promoter score
Ofgem	The government regulator for gas and electricity markets in Great Britain
Paris Accord	A global agreement to keep temperature rise well below 2°C above pre-industrial levels, and pursue efforts to limit the increase to 1.5°C
PP&E	Property, Plant and Equipment
ppt	Percentage point
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRA	Prudential Regulatory Authority
PRT	Petroleum Revenue Tax
PWR	Pressurised water reactor
RBD	Reconciliation by difference
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
SASB	Sustainability Accounting Standards Board
SAYE	Save As You Earn
SESC	Safety, Environment and Sustainability Committee
SIP	Share Incentive Plan
tCO_2e	Tonnes of carbon dioxide equivalent
T&Cs	Terms and Conditions
TCFD	Task Force on Climate-related Financial Disclosures
The Company	Centrica plc
The Group	Centrica plc and all of its subsidiary entities
TRIFR	Total recordable injury frequency rate
TSR	Total shareholder return
TWh	Terawatt hour
UAOCF	Underlying adjusted operating cash flow
VIU	Value in use
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

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Although we make such statements based on assumptions that we believe to be reasonable, by their nature, these forward-looking statements are subject to risk and uncertainties because they relate to, and may be impacted by, events and circumstances that will occur in the future which are beyond the Company's ability to control or estimate precisely. There can be no assurance that the Company's actual future results, financial condition, performance, operations and businesses will not differ materially from those expressed or implied in the forward-looking statements due to a variety of factors, including, but not limited to, those set out in the 'Our Principal Risks and Uncertainties' section of the Strategic Report. Readers are cautioned that these forward-looking statements are not guarantees or predictions of the Company's future performance and undue reliance should not be placed on them when making investment decisions.

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