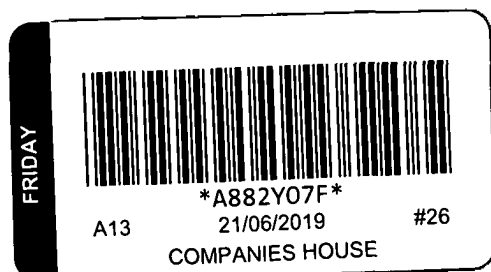


Registration number: 05782908

Centrica Hive Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



Contents

Strategic Report	1 to 2
Directors' Report	3 to 7
Statement of Directors' Responsibilities	6
Independent Auditors' Report	8 to 10
Income Statement	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14 to 39

Strategic Report for the Year Ended 31 December 2018

The Directors present the Strategic Report for Centrica Hive Limited (the 'Company') for the year ended 31 December 2018. On 16 February 2018 the name of the Company was changed from Centrica Connected Home Limited to Centrica Hive Limited.

Principal activities

The principal activities of the Company are the development of a software platform, and associated hardware products related to virtual home monitoring, together with the sale of Hive Smart thermostats and other connected Hive products and services. This assists our customers in the areas of home energy management, home automation and peace of mind.

Review of the business

The results of the Company for the year, as set out on page 11, show a loss before income tax for the year of £77,468,000 (2017: £75,691,000 loss). The increase in losses from the previous year is mainly due to exceptional items. Exceptional items of £1,848,000 were incurred in the year, representing the Company's share of Group restructuring costs (2017: £348,000).

The Company delivered further growth in customers and product sales in 2018, building on its leading position in the UK, while expanding its range of products, propositions and partnerships.

During the year we launched a number of new products, including the Hive View indoor and outdoor cameras, Hive Hub 360, lighting ranges and the integration of Phillips Hue products. We have introduced several new propositions, including 'cloud storage', and in December we launched our connected care service: 'Hive Link' in partnership with Carers UK, which provides peace of mind to people caring for friends or relatives.

We continue to focus on improving the customer experience. During the year we upgraded the Hive App, which now includes 'App Chat' customer services capability and enhanced 'Actions', giving customers greater local control. We also developed our technical infrastructure, enabling a more efficient and scalable platform with faster response times.

As at 31 December 2018, the Company had net liabilities of £156,124,000 (2017: net liabilities of £93,782,000). Cash balances at 31 December were £349,000 (2017: £69,000). The increase in net liabilities from the prior year reflects investment in the business, as described above.

Principal risks and uncertainties

From the Company's perspective, the principal risks and uncertainties are integrated with the principal risks of the Centrica plc Group ('the Group') and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 41-50 of the Group Annual Report and Accounts 2018, which does not form part of this report. Further details can be found in the Directors' report on pages 3 and 4.

Exit from the European Union

The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact on the Company is limited in the short-term. Many details of the implementation process remain unclear. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage market impacts. There are also potential tax consequences of the withdrawal and these will be reassessed at each reporting date to ensure our tax provisions reflect the most likely outcome following the withdrawal.

Strategic Report for the Year Ended 31 December 2018 (continued)

Key performance indicators ('KPIs')

The Directors of the Company use a number of KPIs to monitor progress against the strategy of the Group, which are primarily profit before tax and net liabilities, as described above. The development, performance and position of the Group, which includes the Company, is disclosed on pages 18 and 19 of the Group's Annual Report and Accounts 2018, which does not form part of this report.

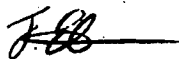
Future developments

The Group continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company.

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

The Company will continue to expand the Hive product range across the strategic pillars of peace of mind, home energy management and home automation. Expanding our range of sales channels remains important and we have had some success in signing up partnerships in the UK although none of them are material to the current year Income Statement. In Ireland we have early traction with several large retailers and we believe we can apply similar principles of optimisation from the UK to Ireland.

Approved by the Board on 17 May 2019 and signed on its behalf by:



J. ELLIOT

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

Company registered in England and Wales, No. 05782908

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Directors' Report for the Year Ended 31 December 2018

The Directors present their annual report and the audited Financial Statements for the year ended 31 December 2018.

Directors of the Company

The Directors who held office during the year and up to the date of signing this report were as follows:

K Ringrose

R Callaghan (appointed 1 January 2018)

C Miles (appointed 1 January 2018)

Results and dividends

The results of the Company are set out on page 11. The loss for the financial year ended 31 December 2018 is £63,300,000 (2017: loss £60,135,000).

No dividends were paid during the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £nil).

The financial position of the Company is presented in the Statement of Financial Position on page 12. Total equity at 31 December 2018 is £(156,124,000) (2017: £(93,782,000)).

Financial risk management

Objectives and policies

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed.

Exposure in terms of price risk, credit risk, liquidity risk and cash flow risk

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

Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk is limited predominantly to exposure with other Group companies or arises in the normal course of operations as a result of the potential for a customer to default on their payable balance. In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. An ageing of receivables is monitored and used to manage the exposure to credit risk.

Cash forecasts identifying the liquidity requirements of the Company are produced and reviewed periodically to ensure there is sufficient financial headroom for at least a twelve month period from the date of approval of these financial statements.

Directors' Report for the Year Ended 31 December 2018 (continued)

Financial risk management (continued)

Exposure in terms of financial assets and reporting risks

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

The Company has material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets are recoverable. The key assets that are subjected to impairment tests are internally generated software development costs and goodwill. For details of the amounts of key assets which are subject to impairment tests, see note 12.

Employees

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

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

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

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

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

Future developments

Future developments are discussed in the Strategic Report on page 2, and form part of this report by cross-reference.

Research and development

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

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

Directors' Report for the Year Ended 31 December 2018 (continued)

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

Directors' and officers' liability

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

Directors' Report for the Year Ended 31 December 2018 (continued)

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

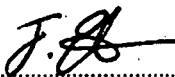
This information is given and should be interpreted in accordance with the provisions of s418(2) of the Companies Act 2006.

Directors' Report for the Year Ended 31 December 2018 (continued)

Auditors

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

Approved by the Board on 17 May 2019 and signed on its behalf by:

 J. ELLIOT

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

Company registered in England and Wales, No. 05782908

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Independent auditors' report to the members of Centrica Hive Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of the Company:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" ('FRS 101'); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditors' report to the members of Centrica Hive Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent auditors' report to the members of Centrica Hive Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

D. Winstone

.....
Daryl Winstone (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

1 New Street Square

London

EC4A 3BZ

United Kingdom

17 May 2019

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	63,007	69,717
Cost of sales	5	<u>(52,457)</u>	<u>(58,938)</u>
Gross profit		10,550	10,779
Operating costs	5	(84,410)	(79,678)
Exceptional items - restructuring costs	7	<u>(1,848)</u>	<u>(348)</u>
Operating (loss)		(75,708)	(69,247)
Finance income	8	1,406	142
Finance cost	8	<u>(3,166)</u>	<u>(6,586)</u>
(Loss) before income tax		(77,468)	(75,691)
Tax credit	10	<u>14,168</u>	<u>15,556</u>
(Loss) for the year		<u>(63,300)</u>	<u>(60,135)</u>

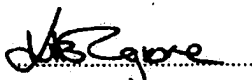
The above results were derived from continuing operations.

There was no other comprehensive income for 2018 (2017: £nil).

Statement of Financial Position as at 31 December 2018

	Note	31 December 2018 £ 000	31 December 2017 £ 000
Non-current assets			
Property, plant and equipment	11	6,495	5,994
Intangible assets	12	95,235	74,303
Deferred tax assets	10	15	-
Investments	13	20	20
		<u>101,765</u>	<u>80,317</u>
Current assets			
Trade and other receivables	14	45,357	61,799
Inventories	15	21,528	30,605
Corporation tax		52	-
Cash and cash equivalents		349	69
		<u>67,286</u>	<u>92,473</u>
Total assets		<u>169,051</u>	<u>172,790</u>
Current liabilities			
Trade and other payables	17	(324,398)	(265,167)
Provisions for other liabilities and charges	18	(318)	(193)
		<u>(324,716)</u>	<u>(265,360)</u>
Non-current liabilities			
Provisions for other liabilities and charges	18	(459)	(1,212)
		<u>(459)</u>	<u>(1,212)</u>
Total liabilities		<u>(325,175)</u>	<u>(266,572)</u>
Net liabilities		<u>(156,124)</u>	<u>(93,782)</u>
Equity			
Share capital	20	2,030	2,030
Share premium	20	47,383	47,383
Accumulated losses	20	(207,096)	(143,796)
Other reserves	20	1,559	601
Total equity		<u>(156,124)</u>	<u>(93,782)</u>

The financial statements on pages 11 to 39 were approved and authorised for issue by the Board of Directors on 17 May 2019 and signed on its behalf by:



K Ringrose, Director

Company number 05782908

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2018	2,030	47,383	601	(143,796)	(93,782)
Loss for the year and total comprehensive loss	-	-	-	(63,300)	(63,300)
Share based payments	-	-	958	-	958
At 31 December 2018	2,030	47,383	1,559	(207,096)	(156,124)

	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2017	2,030	47,383	-	(83,661)	(34,248)
Loss for the year and total comprehensive loss	-	-	-	(60,135)	(60,135)
Share based payments	-	-	601	-	601
At 31 December 2017	2,030	47,383	601	(143,796)	(93,782)

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

Centrica Hive Limited (name changed from Centrica Connected Home Limited on the 16 February 2018) (the 'Company') is a private company limited by shares incorporated and domiciled and registered in England and Wales in the United Kingdom.

The registered office and principal place and business is:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2 Accounting policies

Basis of preparation

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

From 1 January 2018, the following standards and amendments are effective in the Company's Financial Statements. Their first time adoption did not have a material impact on the financial statements:

- IFRS 9: 'Financial Instruments'
- IFRS 15: 'Revenue from contracts with customers'

The key changes to the accounting policies are disclosed below.

IFRS 9: 'Financial Instruments'

The Company adopted IFRS 9: 'Financial Instruments' from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets and loan commitments. No changes to the impairment provisions were made on transition to IFRS 9 as these are not considered material.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

IFRS 15: 'Revenue from contracts with customers'

The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. All revenue for this Company has been assessed to be within the scope of IFRS 15. This resulted in no changes to amounts previously recognised in the financial statements. The key changes to accounting policies are described below.

Transition approach

In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively but as adoption did not impact the comparative figures, the 2017 financial year has not been restated except that certain assets and liabilities have been reclassified.

The Company has applied the following practical expedients on initial application:

- IFRS 15:C5(a)(i, ii): Exemption from the requirement to apply the standard to contracts that begin and end within the same annual reporting period and contracts completed at the beginning of the earliest period presented;
- IFRS 15:C5(b): Use of the transaction price at the date the contract was completed for completed contracts with variable consideration rather than estimating variable consideration amounts in the comparative reporting periods.

None of the above practical expedients had a material effect on the Financial Statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The requirements of IAS 7 'Statement of Cash Flows';
- The statement of compliance with Adopted IFRSs;
- The effects of new but not yet effective IFRSs;
- Comparative period reconciliations for property, plant and equipment and intangible assets;
- The prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- Disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures in respect of capital management.

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

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Measurement convention

The financial statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101 and the carrying value of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

Departures from requirements of the Companies Act and their financial impact

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

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

Exemption from preparing group financial statements

The Company is exempt by virtue of the Companies Act 2006 (s400) from the requirement to prepare group financial statements as it is a wholly-owned subsidiary of Centrica plc. These financial statements present information about the Company as an individual undertaking and not about its group.

Going concern

The financial statements have been prepared on a going concern basis.

The Company is loss-making and will require equity or debt financing to fund its operations until such time as sales, revenues and gross margins are sufficient to support its operations. Centrica plc, the ultimate controlling party, has confirmed its intention to provide financial support to Centrica Hive Limited for at least 12 months after the date of signing these financial statements so that the Company will be able to meet its liabilities as they fall due. It is on this basis the Directors have concluded the Company is a going concern.

These financial statements do not reflect any adjustments that may be required if the Company was unable to continue in operational existence for the foreseeable future.

Summary of significant accounting policies and key accounting estimates

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Revenue recognition

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

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

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

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

Finance income

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

Employee share schemes

The Centrica plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 90 to 109 and in note S2 to the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

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

The Company's share of the Group schemes is accounted for in equity (see note 21).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

Exceptional items

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income or finance costs'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

Borrowing costs

Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Taxation

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

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the reporting date.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Business combinations and goodwill

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

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

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Other intangible assets

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

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

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

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

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

Amortisation of intangible assets

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

Asset class	Amortisation method and rate
Acquired software development costs	Straight line, up to 6 years
Internally generated software development costs	Straight line, up to 5 years
Trademarks, patents and licences	Straight line, up to 5 years

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Impairment

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

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

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

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

Property, plant and equipment ('PP&E')

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

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

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

Depreciation

Depreciation is charged as follows:

Asset class	Depreciation method and rate
Furniture, fittings and equipment	Straight line, over 3 years

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Investments in subsidiaries

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

Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items. Cost is calculated using the weighted average method.

Trade and other receivables

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

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Changes in the Company's impairment policy as a result of the application of IFRS 9 did not result in any material changes. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

Cash and cash equivalents

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

Trade and other payables

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

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

Loans and other borrowings

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

Financial assets and liabilities

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Pensions and other post-employment benefits

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

The Company's share of the Group's payments to defined contribution retirement benefit schemes are recognised in the Company's Income Statement as they fall due.

Share capital

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

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Management has made the following key judgements in applying the Company's accounting policies that have the most significant effect on the Company's financial statements. Additionally, the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

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

Critical judgements in applying the Company's accounting policies

Capitalisation of intangible assets

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

Key sources of estimation uncertainty

Impairment of intangible assets

The Company has material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets are recoverable. The key assets that are subjected to impairment tests are internally generated software development costs and goodwill. For details of the amounts of key assets which are subject to impairment tests, see note 12.

Contingent consideration

The Flowgem acquisition included the potential payment of deferred consideration. Consideration is payable to the vendors at the rate of £1 for each unit that is sold or supplied to a customer and activated on the platform for a three year period. The contingent consideration is capped at a maximum. IFRS 3 requires contingent consideration to be measured at fair value at the acquisition date. The fair value calculations include estimates of probabilities of different outcomes including likelihood and timing of volumes supplied in the earn-out period. Details of the liability can be found in notes 16 and 18. The contingent consideration is FVTPL.

4 Revenue

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

	2018 £ 000	2017 £ 000
Sale of goods	55,086	68,130
Subscription income	7,921	1,587
	<u>63,007</u>	<u>69,717</u>

Revenue - by geography (based on location of customer)

	2018 £ 000	2017 £ 000
United Kingdom	61,902	37,395
Rest of the world	1,105	32,322
	<u>63,007</u>	<u>69,717</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

5 Analysis of costs by nature

Research and development costs expensed in the period totalled £2,871,000 (2017: £5,242,000). These were included within Wages and salaries and Other employee expenses within Other operating costs below.

			2018
	Cost of sales	Other operating costs	Total costs
	£ 000	£ 000	£ 000
Hardware and installation costs	52,457	-	52,457
Wages and salaries	-	28,362	28,362
Other employee expenses (including subcontractors and agency staff)	-	26,913	26,913
Depreciation, amortisation, impairment and write-downs	-	16,550	16,550
Foreign exchange (gains) / losses	-	903	903
Impairment of trade receivables	-	1,999	1,999
Other costs	-	9,683	9,683
	<u>52,457</u>	<u>84,410</u>	<u>136,867</u>
			2017
	Cost of sales	Other operating costs	Total costs
	£ 000	£ 000	£ 000
Hardware and installation costs	58,938	-	58,938
Wages and salaries	-	23,443	23,443
Other employee expenses (including subcontractors and agency staff)	-	33,449	33,449
Depreciation, amortisation, impairment and write-downs	-	9,918	9,918
Foreign exchange (gains) / losses	-	(448)	(448)
Impairment of trade receivables	-	151	151
Other costs	-	13,165	13,165
	<u>58,938</u>	<u>79,678</u>	<u>138,616</u>

6 Employees' costs

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

6 Employees' costs (continued)

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

	2018	2017
	£ 000	£ 000
Wages and salaries	23,788	19,033
Social security costs	2,460	2,359
Pension and other post-employment benefit costs	1,896	1,450
Share-based payment expenses	218	601
	<u>28,362</u>	<u>23,443</u>

In respect of the Directors' remuneration, refer to note 25 'Related parties transactions'.

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

	2018	2017
	No. of employees	No. of employees
Administration and support	106	92
Product development and sales	<u>233</u>	<u>237</u>
	<u>339</u>	<u>329</u>

7 Exceptional items

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

	2018	2017
	£ 000	£ 000
Restructuring costs	<u>1,848</u>	<u>348</u>

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

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

8 Net finance income/(cost)

Finance income

	2018	2017
	£ 000	£ 000
Interest income from amounts owed by Group undertakings	1,406	142

Finance (cost)

	2018	2017
	£ 000	£ 000
Interest on amounts owed to Group undertakings	(3,110)	(6,642)
Net foreign exchange gains/(losses) on financing transactions	(56)	56
Total finance (cost)	(3,166)	(6,586)
Net finance (cost)	(1,760)	(6,444)

9 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2018	2017
	£ 000	£ 000
Audit fees	40	40

10 Tax

Tax (credited) in the Income Statement

	2018	2017
	£ 000	£ 000
Current tax		
UK corporation tax at 19.00% (2017: 19.25%)	(14,142)	(14,076)
UK corporation tax adjustment to prior years	(11)	(120)
	(14,153)	(14,196)
Deferred tax		
Arising from origination and reversal of temporary differences - UK	(59)	(1,489)
Arising from changes in tax rates and laws	6	173
Arising from tax adjustments to prior years	38	(44)
Total deferred taxation	(15)	(1,360)
Tax credit in the Income Statement	(14,168)	(15,556)

The Company incurs the majority of its losses in the UK. Its activities are subject to the standard rate for UK corporation tax, which for 2018 was 19.00% (2017: 19.25%).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Tax (continued)

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

	2018 £ 000	2017 £ 000
Loss before tax	(77,468)	(75,691)
Tax (credit) at standard UK corporation tax rate of 19.00% (2017: 19.25%)	(14,719)	(14,571)
<i>Effects of:</i>		
Net expenses non-deductible for tax purposes	9	58
Adjustment for prior periods	27	(164)
Effect of exercise of employee share options	170	12
Effects of Group relief tax reconciliation	(114)	204
Transfer pricing adjustments	114	(204)
Deferred tax expense/(credit) relating to changes in tax rates or laws	6	173
Income not taxable	(109)	-
Other differences	19	-
Losses derecognised/ (recognised) from prior years	429	(1,064)
Total tax	(14,168)	(15,556)

The main rate of corporation tax for the year to 31 December 2018 was 19.00% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Tax (continued)

Deferred tax

	Fixed assets	Temporary differences trading	Tax credits	Tax losses	Financial instruments	Other temporary differences	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
1 January 2018	(12)	(1,006)	-	-	(8)	1,026	-
Prior year adjustments	(34)	941	(15)	(941)	-	87	38
Charged/(credited) to the Income Statement	(91)	(10)	-	384	1	(337)	(53)
31 December 2018	<u>(137)</u>	<u>(75)</u>	<u>(15)</u>	<u>(557)</u>	<u>(7)</u>	<u>776</u>	<u>(15)</u>

There is £40,987,000 of trading losses (2017: £38,728,000) and £(3,000) of other temporary differences (2017: £(3,000)) for which no deferred tax asset is recognised in the Statement of Financial Position.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11 Property, plant and equipment

	Furniture, fittings and equipment £ 000
Cost or valuation	
At 1 January 2018	8,081
Additions	<u>2,584</u>
At 31 December 2018	<u>10,665</u>
Accumulated depreciation	
At 1 January 2018	2,087
Charge for the year	<u>2,083</u>
At 31 December 2018	<u>4,170</u>
Carrying amount	
At 31 December 2018	<u>6,495</u>
At 31 December 2017	<u>5,994</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Intangible assets

	Goodwill £ 000	Trademarks, patents and licences £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	13,065	250	73,031	86,346
Additions	-	-	35,399	35,399
At 31 December 2018	13,065	250	108,430	121,745
Accumulated amortisation				
At 1 January 2018	-	204	11,839	12,043
Amortisation charge	-	46	14,421	14,467
At 31 December 2018	-	250	26,260	26,510
Carrying amount				
At 31 December 2018	13,065	-	82,170	95,235
At 31 December 2017	13,065	46	61,192	74,303

The maximum remaining useful economic life of the the individually material assets within Internally generated software development costs is four years. This represents the Hive software platform and its subsequent enhancements, which has a carrying value of £14,601,000 (2017: £11,563,000).

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12 Intangible assets (continued)

Individually material intangible assets

Impairment of goodwill and intangibles with indefinite lives

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

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

Cash generating unit:	Goodwill	
	2018	2017
	£000	£000
Connected Home	13,065	13,065
	<u>13,065</u>	<u>13,065</u>

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

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

Cash flows beyond the planned period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate. Long-term growth rates and pre-tax discount rates used in the VIU calculations were 2.1% (2017: 2.6%) and 11.1% (2017: 9.5%) respectively.

The inflation rate used for the VIU calculations was 2.1% (2017: 2.6%).

Amortisation and impairment charge

The amortisation and impairment charges are recognised in the following line items in the Income Statement:

	2018	2017
	£ 000	£ 000
Other operating costs	14,467	8,784
	<u>14,467</u>	<u>8,784</u>

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

13 Investments

Investments classified as non-current

	Shares in group undertakings (subsidiaries) £ 000
Equity investments	
Cost	
At 1 January 2017	20
At 31 December 2017	20
At 1 January 2018	20
At 31 December 2018	20
Net book value	
At 31 December 2018	20
At 31 December 2017	20

Details of the equity interests of the Company in its subsidiaries can be found in note 24.

14 Trade and other receivables

	2018 Current £ 000	2017 Current £ 000
Trade receivables	16,134	8,514
Amounts owed by associated group companies	13,594	47,810
Other receivables	1,149	4
Prepayments	6,485	1,307
Accrued income	7,913	4,164
Other financial assets	82	-
	<u>45,357</u>	<u>61,799</u>

The amounts receivable from associated group companies include £Nil (2017: £Nil) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72 and 4.13% per annum during 2018 (2017: 3.66 and 3.86%). The other amounts receivable from associated group companies are interest-free. All amounts receivable from associated group companies are unsecured and repayable on demand.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

15 Inventories

	2018	2017
	£ 000	£ 000
Finished goods and goods for resale	21,528	30,605

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

The Company consumed £43,840,000 of inventories (2017: £50,648,000) during the year. Write-downs amounting to £492,000 (2017: £1,485,000) were charged to the Income Statement in the year and are disclosed as Other costs within Other operating costs.

16 Acquisitions - business combinations

Business combinations completed in 2016

On 25 August 2016, the Company acquired 100% of the issued share capital of Flowgem Limited ('Flowgem') for net cash consideration of £11,730,000 and contingent consideration with a fair value of £4,581,000 (a total net consideration of £16,311,000). Subsequent to acquisition, there was a delay in the expected roll-out of the leak propositions due to additional development required to the platform and infrastructure post-acquisition to bring the product to market. As a result, management updated the fair value calculations relating to the contingent consideration giving rise to a credit of £3,321,000 in the 2016 Income Statement and subsequently a credit of £800,000 in the 2018 Income Statement. This was disclosed as part of Other costs within Other operating costs. The contingent consideration included in note 18 of £460,000 (2017: £1,260,000) has been reviewed to consider whether its still appropriate and its been concluded that it can be reduced to reflect the current estimate of the liability.

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

17 Trade and other payables

	2018	2017
	Current	Current
	£ 000	£ 000
Trade payables	7,986	2,800
Accrued expenses	19,947	6,674
Amounts owed to parent company	225,151	189,080
Social security and other taxes	922	885
Amounts owed to associated group companies	69,092	65,351
Contract liabilities	1,300	377
	324,398	265,167

The net amount payable to the parent company includes amounts receivable of £87,279,000 (2017: £11,108,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72 and 4.13% per annum during 2018 (2017: 3.66 and 3.86%). The other amounts payable to associated group companies are interest-free. All amounts payable to the parent company and associated group companies are unsecured and repayable on demand.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

18 Provisions for other liabilities and charges

	Employee benefits ⁽ⁱ⁾ £ 000	Other provisions ⁽ⁱⁱ⁾ £ 000	Total £ 000
Non-current liabilities	99	360	459
Current liabilities	218	100	318
At 1 January 2018	145	1,260	1,405
Unused provisions reversed	-	(800)	(800)
Additional provisions	172	-	172
At 31 December 2018	317	460	777

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

(ii) Other provisions carried forward of £460,000 are in respect of deferred consideration (2017: £1,260,000); £100,000 of which is due within one year (2017: £193,000). More information on this is disclosed in note 16.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

19 Post-retirement benefits

(a) Defined benefit pension schemes

The Company's employees participate in a number of Group defined benefit pension schemes. Information on these schemes is provided in note 22 to the Group financial statements. The Company is unable to accurately identify its share of the overall pension scheme surplus or deficit and therefore accounts for the schemes as if they were a defined contribution scheme. Contributions payable of £214,000 (2017: £309,000) were recognised as an expense payable in the Income Statement.

(b) Defined contribution pension scheme

The cost charged to the Income Statement of £1,682,000 (2017: £1,141,000) represents the Company's share of contributions due to the scheme by the Group at rates specified in the rules of the scheme.

20 Share capital and reserves

Allotted, called up and fully paid shares

	No. 000	2018 £ 000	No. 000	2017 £ 000
Ordinary shares of £0.060 each	33,837	2,030	33,837	2,030

Share premium

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

Other reserves

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

Accumulated losses

The balance classified as accumulated losses includes the profits and losses realised by the Company in previous years that were not distributed to the shareholder of the Company at the balance sheet date.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

21 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in several employee share schemes which gave rise to a charge of £218,000 (2017: £601,000) which is shown under the financial line item 'other operating costs'. The schemes that Centrica Hive employees participated in are described below.

On Track Incentive Plan

Awards under the OTIP are available to senior executives, senior and middle management. Shares vest subject to continued employment within Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards. Further information on the operation of the OTIP, and the related performance conditions can be found on pages 90 to 103 of the Centrica plc 2018 Annual Report and Accounts.

Share Incentive Plan (SIP)

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

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

22 Operating leases

At 31 December 2018 the Company had total future minimum lease payments under non-cancellable operating leases for property with the following maturities:

	2018 £ 000	2017 £ 000
Within one year	4,626	4,291
In two to five years	4,020	1,520
In over five years	100	
	<u>8,746</u>	<u>5,811</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year as Other operating costs was £3,737,000 (2017: £2,354,000). Lease arrangements comprise property rentals.

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

23 Other commitments and contingencies

As at 31 December 2018, the Company is obligated to the following commitments.

	2018	2017
	£ 000	£ 000
Other commitments	20,586	16,273

Included within other commitments are stock purchase commitments of £17,487,000 (2017: £8,020,000), advertising retainers for marketing purposes of £301,000 (2017: £3,122,000) and other commitments of £2,798,000 (2017: £5,131,000). Stock purchase commitments will unwind over periods ranging from four to 13 months. Advertising retainers are for three months and other commitments expire in 11 months.

24 Related undertakings

The Company holds investments in the following entities:

Name	Principal activity	Country of incorporation	Registered address key ⁽ⁱ⁾	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Alertme.com GmbH	Non-trading	Germany	A	Ordinary shares	100	-
Alertme.com Inc.	Non-trading	United States	B	Ordinary shares	100	-
Flowgem Limited (ii)	Dormant	United Kingdom	C	Ordinary shares	100	-

(i) For list of registered addresses, refer to below table

(ii) Flowgem Limited went into liquidation on the 27th September 2018.

All companies principally operate within their country of incorporation.

List of registered addresses

Registered address key	Address
A	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
B	1521 Concord Pike #3003, Wilmington, DE 19803, United States
C	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

25 Related party transactions

Directors' remuneration

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

Other

The Company has taken advantage of the exemption within FRS 101 from disclosure of transactions with other wholly-owned Centrica plc Group companies and key management personnel compensation.

26 Parent and ultimate parent undertaking

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

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

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales