Registration number: 09920361

# Centrica LNG UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

**Centrica LNG UK Limited**

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# Centrica LNG UK Limited

## Strategic Report for the Year Ended 31 December 2020

The Directors present their Strategic Report for Centrica LNG UK Limited (the 'Company') for the year ended 31 December 2020.

**Principal activity**
The principal activity of the Company is the trading of liquified natural gas ('LNG'), utilising Centrica group's (the 'Group') share of the LNG terminal at the Isle of Grain and Free on Board ('FOB') trading. The Company has a contract with a fellow Group company, British Gas Trading Limited ('BGTL'), to use the rights granted to BGTL to utilise capacity at the Isle of Grain LNG receiving terminal, which enables the Company to land cargoes of LNG at the Isle of Grain facility. The primary purpose of the Isle of Grain contract is to contribute to the secure supply of the British Gas customer base; from 2014, the Company pays BGTL: costs in relation to Isle of Grain slots sold to the Company; and a monthly fee to BGTL to reflect its usage of other LNG capacity for optimisation purposes. The Company also markets LNG capacity for BGTL and any profits are shared.

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

**General confirmation of Directors' duties**

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

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

The Directors understand the Company's business and the evolving environment in which it operates, including the challenges of a highly competitive marketplace, regulatory intervention and climate change. The Directors recognise how our operations are viewed by different stakeholders and that some decisions they take may not align all stakeholder interests.

The Directors took decisions during 2020 that they believed would best promote Centrica's long-term success for the benefit of its stakeholders as a whole. For instance, in light of the uncertainty arising from the COVID-19 pandemic, dividend decisions were made taking into full consideration the need to ensure the long-term sustainability of the business for its customers.

(b)The interests of the company's employees

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

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

The Directors recognise the benefits of engaging with a broad range of stakeholders and developing and delivering our strategy depends on building and maintaining constructive relationships across them all. The Company continued to foster existing and create new business relationships with counterparties in the markets in which it operates. For example, the Company entered into a Sale and Purchase Agreement (SPA) with Fuelgarden Energy A/S in November 2020.

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

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

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

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

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

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

**Culture**

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

**Stakeholder Engagement**

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard to the matters set out in Section 172 (1) (a) to (f) of the Companies Act. Further information on stakeholder engagement can be found on pages 22 to 24 of the Group's Annual Report and Accounts 2020. Engaging with stakeholders delivers better outcomes for society, and for the business. It is fundamental to the Company's long-term success.

**Review of the business**

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101'). The net liabilities for the financial year ended 31 December 2020 are £(11,009,000) (2019: £(3,117,000)). As a consequence of Covid, there was an unprecedented low demand for LNG in 2020, this caused the average selling price to drop to 29.9p (2019: 49.9p), resulting in lower revenue. However, the purchase price was also low, which meant the Company's cost of sales also reduced compared to 2019. The financial performance of the Company is set out in the Directors' Report on page 4.

**Principal risks and uncertainties**
From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 34-42 of the Group's Annual Report and Accounts 2020, which does not form part of this report.

**Exit from the European Union**
The UK and the European Union agreed a new trade deal which came into effect on the 31 December 2020 at 23:00 GMT. The UK's exit from the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. Extricating from the European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure the tax provisions reflect the most likely outcome following the withdrawal.

**Key performance indicators ('KPIs')**
Given the nature of the business, the Company's Directors are of the opinion that the KPIs necessary for an understanding of the development performance and position of the Company are net assets and profit after tax.

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 12-13 of the Group's Annual Report and Accounts 2020, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 4.

**Future developments**
On 11 June 2020, Centrica announced plans for a significant restructure designed to create a simpler, leaner group focused on improved service delivery for customers. The restructure is on track with a reduction in Group direct headcount by over 3,000 in 2020 and another 1,000 role reductions expected to take place in 2021. The restructure will benefit the longer term value of the business, future operating profits and maintenance of a strong capital position of the Group. The Company would not expect to be materially impacted by the restructure.

Approved by the Board on 30 June 2021 and signed on its behalf by:

Samantha Hood

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

Company registered in England and Wales, No. 09920361

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

## Directors' Report for the Year Ended 31 December 2020

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

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

David Lee Dunlavy

Arturo Faustino Gallego Diaz

Cassim Mangerah

Jonathan Damian Westby (resigned 1 September 2020)

Ailsa Zoya Longmuir

Stefka Gerova (appointed 2 June 2020)

**Results and dividends**
The results of the Company are set out on page 11. The loss for the financial year ended 31 December 2020 is £7,892,000 (2019: loss £5,750,000).

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

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

**Going concern**
The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Group expects ongoing impacts from COVID-19 in 2021 and 2022, including lower energy demand and incremental bad debt costs as the economy recovers from the pandemic. The Group has substantial liquidity available to mitigate these adverse impacts with undrawn committed facilities as at 31 December 2020 of £3.6 billion, before the receipt of proceeds of $3.625 billion on 5 January 2021 from the sale of Direct Energy to NRG Energy. The Group going concern assessment as at 31 December 2020 included various sensitivities including the impacts of a 30% decline in commodity prices, credit rating downgrade and external risks of COVID-19 including lower demand for products, lower energy consumption and higher bad debt costs, as well as mitigating actions to maintain liquidity. The Centrica plc Board remains committed to maintaining a strong balance sheet. After Centrica's preliminary results announcement in February neither credit rating agency changed their rating with S&P affirming a BBB (negative) credit rating on 26 February and Moody's note on the same date also leaving the Baa2 (negative) rating unchanged.

The Directors have considered in their evaluation of going concern that there was a narrowing of global LNG spreads and a reduction in global demand for LNG, however the Directors do not view this is as characteristic of the market nor has it materially impacted the Directors going concern considerations.

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

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

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

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

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

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

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

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

Approved by the Board on 30 June 2021 .................................................. and signed on its behalf by:

Samantha Hood

........................................

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

Company registered in England and Wales, No. 09920361
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
United Kingdom

# Independent Auditor's Report to the Members of Centrica LNG UK Limited

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements of Centrica LNG UK Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

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

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

### Conclusions relating to going concern

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

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

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

### Other information

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

# Independent Auditor's Report to the Members of Centrica LNG UK Limited (continued)

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

We have nothing to report in this regard.

**Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

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

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

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

## Independent Auditor's Report to the Members of Centrica LNG UK Limited (continued)

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

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:

- Revenue recognition with a focus on inappropriate trades as a result of potential manipulation. There is a risk that revenue may be recognised from trades which are inaccurate, missing, non-existent or with counterparties that have not been approved:
  We obtained an understanding of the trading control environment and tested the design & implementation of relevant new counterparty and deal capture trading controls. We used computer assisted audit techniques which included testing that trades were with approved counterparties and to test that trades were valid and accurate by matching to third-party confirmations, and performed additional procedures in respect of unconfirmed and late entered trades.

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

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

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

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

## Independent Auditor's Report to the Members of Centrica LNG UK Limited (continued)

**Matters on which we are required to report by exception**

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

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

We have nothing to report in respect of these matters.

**Use of our report**

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

James A. Leigh

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

Date: 30 June 2021

## Centrica LNG UK Limited

## Income Statement for the Year Ended 31 December 2020

| | Note | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|---|
| Revenue | 4 | 134,968 | 248,002 |
| Cost of sales | 5 | (138,896) | (252,077) |
| Gross loss | | (3,928) | (4,075) |
| Operating costs | 5 | (4,476) | (1,277) |
| Operating loss | | (8,404) | (5,352) |
| Finance costs | 7 | (1,339) | (1,747) |
| Loss before taxation | | (9,743) | (7,099) |
| Taxation on loss | 10 | 1,851 | 1,349 |
| Loss for the year from continuing operations | | (7,892) | (5,750) |

The above results were derived from continuing operations.

## Centrica LNG UK Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2020

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Loss for the year | (7,892) | (5,750) |
| Other comprehensive income | - | - |
| Total comprehensive expense for the year | (7,892) | (5,750) |

The notes on pages 15 to 25 form an integral part of these financial statements.

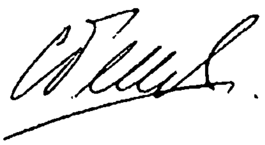
## Centrica LNG UK Limited

## Statement of Financial Position as at 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|---|---|---|---|
| **Current assets** | | | |
| Trade and other receivables | 11 | 15,877 | 42,037 |
| Inventories | 12 | 17,997 | 16,879 |
| Derivative financial instruments | 17 | - | 10,540 |
| Cash and cash equivalents | 13 | 254 | 1 |
| | | 34,128 | 69,457 |
| **Total assets** | | 34,128 | 69,457 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | (30,113) | (72,574) |
| Derivative financial instruments | 17 | (7,979) | - |
| | | (38,092) | (72,574) |
| **Net current liabilities** | | (3,964) | (3,117) |
| **Total assets less current liabilities** | | (3,964) | (3,117) |
| **Non-current liabilities** | | | |
| Trade and other payables | 14 | (7,045) | - |
| | | (7,045) | - |
| **Net liabilities** | | (11,009) | (3,117) |
| **Equity** | | | |
| Share capital | 15 | - | - |
| Retained earnings | | (11,009) | (3,117) |
| **Total equity** | | (11,009) | (3,117) |

The financial statements on pages 11 to 25 were approved and authorised for issue by the Board of Directors on

30 June 2021 ........................................ and signed on its behalf by:



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Stefka Gerova
Director

Company number 09920361

The notes on pages 15 to 25 form an integral part of these financial statements.

## Centrica LNG UK Limited

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

| | Share capital £ 000 | Retained earnings £ 000 | Total equity £ 000 |
|---|---|---|---|
| At 1 January 2020 | - | (3,117) | (3,117) |
| Loss for the year | - | (7,892) | (7,892) |
| Total comprehensive income | - | (7,892) | (7,892) |
| At 31 December 2020 | - | (11,009) | (11,009) |

| | Share capital £ 000 | Retained earnings £ 000 | Total equity £ 000 |
|---|---|---|---|
| At 1 January 2019 | - | 2,633 | 2,633 |
| Loss for the year | - | (5,750) | (5,750) |
| Total comprehensive income | - | (5,750) | (5,750) |
| At 31 December 2019 | - | (3,117) | (3,117) |

The notes on pages 15 to 25 form an integral part of these financial statements.

## 1 General information

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

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

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

## 2 Accounting policies

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

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

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

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

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

**Summary of disclosure exemptions**
In these financial statements, as a qualifying entity the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

**2 Accounting policies (continued)**

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

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

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

**Measurement convention**

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

The Financial Statements are prepared on the historical cost basis except for derivative financial instruments, available for sale assets, and financial instruments designated at fair value through profit and loss on initial recognition.

**Going concern**

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The Group expects ongoing impacts from COVID-19 in 2021 and 2022, including lower energy demand and incremental bad debt costs as the economy recovers from the pandemic. The Group has substantial liquidity available to mitigate these adverse impacts with undrawn committed facilities as at 31 December 2020 of £3.6 billion, before the receipt of proceeds of $3.625 billion on 5 January 2021 from the sale of Direct Energy to NRG Energy. The Group going concern assessment as at 31 December 2020 included various sensitivities including the impacts of a 30% decline in commodity prices, credit rating downgrade and external risks of COVID-19 including lower demand for products, lower energy consumption and higher bad debt costs, as well as mitigating actions to maintain liquidity. The Centrica plc Board remains committed to maintaining a strong balance sheet. After Centrica's preliminary results announcement in February neither credit rating agency changed their rating with S&P affirming a BBB (negative) credit rating on 26 February and Moody's note on the same date also leaving the Baa2 (negative) rating unchanged.

The Directors have considered in their evaluation of going concern that there was a narrowing of global LNG spreads and a reduction in global demand for LNG, however the Directors do not view this is as characteristic of the market nor has it materially impacted the Directors going concern considerations.

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

## 2 Accounting policies (continued)

**Summary of significant accounting policies and key accounting estimates**

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

**Revenue recognition**

The Company purchases LNG cargoes from a number of counterparties, principally CLNG Co (Centrica LNG Company Limited) and these are recognised in commodities costs (see note 5). The Company's revenue from these cargoes is derived from selling regasified gas which is forward sold to the related group company Centrica Energy Limited (CEL) in the form of UK gas trades. These represent gas sales, and also gas sales and purchases to optimise the performance of the LNG terminal. As these UK gas trades are routinely net settled these are recognised as revenue from financial derivative contracts in the scope of IFRS 9. The realised (settled) and unrealised (fair value changes) net gains and losses relating to these sales of gas are presented within revenue as disclosed in note 4. The associated LNG cargo purchase costs are recognised on an accruals basis within cost of sales (note 5) as these purchase contracts have been determined to be own-use contracts to take delivery and meet customer demand through regasification (refer to the critical judgement in note 3).

Other revenue relating to customer contracts represents road tankering sales and diversion fees under LNG sales contract, and these are recognised in accordance with IFRS 15 at the point in which the performance obligation is satisfied and the LNG has been passed to the customer or the diversion fee has been agreed. At this point it is probable that the economic benefits will flow to the Company and the other revenue can be measured reliably. Other revenue is measured based on the fair value of the consideration received or receivable to which the Company expects to be entitled and is shown net of sales/value added tax, returns, rebates and discounts.

**Finance income**

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

**Cost of Sales**

Cost of sales includes the cost of LNG sold during the period and related transportation, shipping costs, material, capacity, service costs, foreign exchange differences relating to the purchase of cargoes and gains and losses arising from changes in the fair value on derivatives.

**Financing costs**

Financing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Financing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

**Foreign currencies**

Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the Company at the exchange rate ruling at the date of the transaction.

**2 Accounting policies (continued)**

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the Income Statement in the respective financial line item to which they relate.

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

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

**Taxation**

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

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

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

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

**Inventories**

Inventories of LNG are finished goods and valued on a weighted average basis, at the lower of cost and estimated net realisable value. If required, the write-down of stock is included in cost of sales.

**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.

**2 Accounting policies (continued)**

***- Trade and other receivables***

Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for expected credit losses.

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

***- Trade and other payables***

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

Accruals and deferred income comprise expenses relating to the current year, which will not be invoiced until after the reporting date, and income received in advance relating to the following year.

***- 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.

**Derivative financial instruments**

The Company routinely enters into sale and purchase transactions for physical delivery of LNG, in which it applies an own use model and it is deemed that there is no active market for physical LNG and these transactions are not within the scope of IFRS 9.

The Company uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies. Further detail on the Group's risk management policies is included within the Annual Report and Accounts 2020 of the ultimate controlling party being Centrica plc, in the Strategic Report - Principal Risks and Uncertainties on pages 34 to 42 and in note S3.

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

## 2 Accounting policies (continued)

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

## 3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the Company's accounting policies**

The following are critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Own-use contracts**

Some of the LNG contracts have been determined to be own-use contracts (i.e. customer contracts, contracts to take delivery and meet customer demand or sell upstream output). Such contracts are therefore outside the scope of IFRS 9 Financial Instruments and are not marked to market.

## 4 Revenue

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Other revenue relating to customer contracts (IFRS 15) | 13,478 | 14,989 |
| Net gains on financial derivatives (IFRS 9) | 121,490 | 233,013 |
| | 134,968 | 248,002 |

All revenue relates to the principal activity of the business and occurred in the United Kingdom. The Company have applied the exemption available under FRS 101 in respect of certain disclosure requirements of IFRS 15 'Revenue from Contracts with Customers'.

Further detail on the revenue recognition policy in respect of the nature of the IFRS 9 and IFRS 15 revenues can be found within the Revenue recognition accounting policy in note 2.

## 5 Analysis of costs by nature

| | 2020 Cost of sales £ 000 | 2020 Operating costs £ 000 | 2020 Total costs £ 000 | 2019 Cost of sales £ 000 | 2019 Operating costs £ 000 | 2019 Total costs £ 000 |
|---|---|---|---|---|---|---|
| Commodities costs | (108,834) | - | (108,834) | (215,887) | - | (215,887) |
| Transportation, distribution and metering costs | (8,163) | - | (8,163) | (14,617) | - | (14,617) |
| Optimisation and slots recharge | (21,899) | - | (21,899) | (21,573) | - | (21,573) |
| Recharges | - | (4,476) | (4,476) | - | (1,277) | (1,277) |
| Total costs by nature | (138,896) | (4,476) | (143,372) | (252,077) | (1,277) | (253,354) |

Commodity costs represent the costs of the Company purchasing cargoes during the year.

## 6 Employees' costs

The Company has no employees (2019: nil) and no direct staff costs (2019: nil). Any costs relating to employees are borne by other Group companies and recharged to the Company, as shown in note 5.

## 7 Finance cost

| | 2020 £ 000 | 2019 £ 000 |
|---|---|---|
| Interest on amounts owed to Group undertakings | (1,339) | (1,747) |
| **Net finance cost** | (1,339) | (1,747) |

## 8 Directors' remuneration

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

## 9 Auditor's remuneration

Auditor's remuneration totalling £20,600 (2019: £20,000) relates to fees for the audit of the Financial Statements of the Company.

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

## 10 Income tax

Tax charged in the Income Statement

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax at 19% (2019: 19%) | 1,661 | 1,349 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | 190 | - |
| Taxation on profit | 1,851 | 1,349 |

The main rate of corporation tax for the year was 19% (2019: 19%). The UK corporation tax rate was scheduled to reduce to 17% from 1 April 2020 but the Government halted the reduction, to maintain the rate at 19%. As a result, the deferred tax position was rebased during the year to 19% accordingly. Subsequent to this, the budget on 3 March 2021 announced that the rate of corporation tax will increase to 25% from 1 April 2023. When this rate is enacted in the Finance Bill 2021, the impact is not expected to be material.

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

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Loss before tax | (9,743) | (7,099) |
| Tax on profit at standard UK corporation tax rate of 19% (2019: 19%) | 1,851 | 1,349 |
| Decrease arising from group relief tax reconciliation | 92 | 132 |
| Increase from transfer pricing adjustments | (92) | (132) |
| Total tax credit | 1,851 | 1,349 |

## 11 Trade and other receivables

| | 2020<br>Current<br>£ 000 | 2019<br>Current<br>£ 000 |
|---|---|---|
| Amounts owed by Group undertakings | 15,481 | 41,336 |
| Accrued income | 396 | 701 |
| | 15,877 | 42,037 |

The amounts owed by Group undertakings have been presented on a net basis if there is a legal right of offset, and the intent is to settle amounts on a net basis. All amounts owed by Group undertakings are unsecured and repayable on demand.

## 12 Inventories

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Gas in storage | 17,997 | 16,879 |

Inventories of LNG are finished goods and valued on a weighted average basis, at the lower of cost and estimated net realisable value. The Company consumed £116.9m (2019: £200.9m) of inventories during the period.

There was no impairment of stock made in 2020 (2019: £10.6m). The write-down in 2019 was included in cost of sales.

## 13 Cash and cash equivalents

| | 31 December 2020<br>£ 000 | 31 December 2019<br>£ 000 |
|---|---|---|
| Cash at bank | 254 | 1 |

## 14 Trade and other payables

| | 2020 | | 2019 |
|---|---|---|---|
| | Current<br>£ 000 | Non-current<br>£ 000 | Current<br>£ 000 |
| Accrued expenses | (16,156) | - | (5,471) |
| Amounts owed to Group undertakings | (13,957) | - | (67,103) |
| Other payables | - | (7,045) | - |
| | (30,113) | (7,045) | (72,574) |

The amounts owed to Group undertakings have been presented on a net basis if there is a legal right of offset, and the intent is to settle amounts on a net basis. Included within the net amounts owed to Group undertakings disclosed above is £30,697,000 (2019: £33,168,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The Quarterly rates ranged between 4.42% and 4.73% per annum during 2020 (2019: 4.20% and 4.90%). The other net amounts owed to group undertakings are interest free. All amounts owed by Group undertakings are interest-free, unsecured and repayable on demand.

## 15 Capital and reserves

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | No. | £ | No. | £ |
| 1 ordinary share of £1 | 1 | 1 | 1 | 1 |

### 16 Commitments and contingencies

As at 31 December 2020, the Company has a commodity purchase contract with Qatargas to purchase LNG, which expires in 2023. Total Qatargas commodity purchase commitments are estimated on an undiscounted basis, as follows:

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| LNG Qatargas purchase contract | 802,857 | 1,172,823 |

At 31 December the maturity analysis for all commodity purchase commitments on an undiscounted basis was as follows:

| | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---|---|
| Within one year | 47,779 | 41,592 |
| Between one and five years | 755,078 | 1,141,529 |
| | 802,857 | 1,183,121 |

**Other guarantees and indemnities**

In connection with Centrica plc Group's energy trading, transportation and upstream activities, certain Centrica plc Group companies, including the Company, have entered into contracts under which they may be required to prepay, provide credit support or 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.

### 17 Fair value of financial instruments

**Determination of fair values**

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

**Fair value hierarchy**

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

### 17 Fair value of financial instruments (continued)

*Financial instruments carried at fair value*

| | | *31 December 2020* | | *31 December 2019* |
|---|---|---|---|---|
| | **Fair value and carrying value £ 000** | **Level 2 £ 000** | **Fair value and carrying value £ 000** | **Level 2 £ 000** |
| **Derivative financial assets - held for trading under IFRS 9** | | | | |
| Energy derivatives- for procurement/ optimisation | - | - | 10,540 | 10,540 |
| Total financial assets at fair value through profit or loss | - | - | 10,540 | 10,540 |
| **Derivative financial liabilities - held for trading under IFRS 9** | | | | |
| Energy derivatives- for procurement/ optimisation | (7,979) | (7,979) | - | - |
| Total financial liabilities at fair value through profit or loss | (7,979) | (7,979) | - | - |
| **Net financial instruments at fair value** | (7,979) | (7,979) | 10,540 | 10,540 |

### 18 Parent and ultimate parent undertaking

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

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

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

### 19 Non-adjusting events after the financial period

There are no adjusting or non-adjusting post balance sheet events for the Company.