# Centrica plc Preliminary Results for the year ended 31 December 2022

## Chris O'Shea, Group Chief Executive

*"Our performance in 2022 demonstrates the benefits of our balanced portfolio and our strong balance sheet. The energy crisis and cost of living pressures have created a challenging environment for customers and communities, but we have been able to provide much needed stability and support. We invested £75m in supporting our energy customers in 2022, which was greater than the £8 post-tax profit per customer earned by British Gas Energy. Whilst customers may see some relief given recent easing of prices, it remains clear that some will continue to need help and we will do what we can to support them in the year ahead."*

## Helping customers and communities through the energy crisis

- Invested over £200m in customer service, support and pricing across the Company.
- Supported and helped 650,000 customers manage their energy bills since the start of the energy crisis.
- Paid ~£1bn in tax relating to 2022 profits.
- Materially helped UK energy security of supply with the reopening of Rough, and a new gas supply agreement with Equinor sufficient to heat 4.5m homes.

## Strong operational and financial performance from a balanced portfolio

- Adjusted basic EPS of 34.9p (2021: 4.1p); 34.2p excluding Spirit Energy disposed assets.
  - Strong gas production and electricity generation against a backdrop of higher commodity prices.
  - Strong management of increased commodity volatility in Energy Marketing & Trading (EM&T).
  - Lower retail adjusted operating profit including a small loss in British Gas Services & Solutions, reflecting weak commercial performance and investment in customer service, support and pricing.
- Statutory basic EPS loss of 13.3p (2021: profit of 20.7p) including a £2.4bn loss on certain re-measurements after taxation, largely reflecting the revaluation of UK energy supply hedging positions due to wholesale gas and power price falls towards the end of 2022.
- Group free cash flow from continuing operations of £2.5bn (2021: £1.2bn), including some big swings in working capital with £1.1bn inflow in British Gas Energy reflecting the short-term acceleration of cash flows from government support schemes and a £1.6bn build in EM&T and Centrica Storage.
- Statutory net cash flow from operating activities of £1.3bn (2021: £1.6bn) includes £1.2bn of margin cash and collateral outflow to support hedging and trading activity.
- Closing adjusted net cash of £1.2bn at the end of 2022 compared to £0.7bn at the end of 2021.

## Positioning ourselves for growth through net zero

- Strong capabilities and positions in Retail and EM&T leave us well-placed for growth as core markets transition to net zero.
- Investing in flexible and transition assets for value; £400m of in-flight solar, battery and gas-peaking generation projects and progressing plans to repurpose Rough and Morecambe as net zero assets.
- Intention to provide more detail on longer-term investment plans and expected returns alongside Interim results in July 2023.

## Delivering returns for shareholders

- Reinstated progressive dividend policy in July; 2022 full year dividend of 3.0p.
- Intention to extend existing £250m share buyback programme by an additional £300m, which at the current share price would result in Centrica buying back 10% of its issued share capital in total.

## Financial summary

| Year ended 31 December | 2022 | 2021 |
|---|---|---|
| **Total Group excluding Spirit Energy disposed assets** | | |
| Adjusted EBITDA | **£3,508m** | £1,047m |
| Adjusted operating profit | **£2,823m** | £392m |
| Adjusted earnings attributable to shareholders | **£2,005m** | £162m |
| Adjusted basic earnings per share (EPS) | **34.2p** | 2.8p |
| **Total Group** | | |
| Adjusted EBITDA | **£3,993m** | £1,850m |
| Adjusted operating profit | **£3,308m** | £948m |
| Adjusted tax charge | **(£1,077m)** | (£433m) |
| Adjusted effective tax rate | **34%** | 59% |
| Adjusted earnings attributable to shareholders | **£2,050m** | £237m |
| Adjusted basic earnings per share (EPS) | **34.9p** | 4.1p |
| Full year dividend per share (DPS) | **3.0p** | 0.0p |
| Group free cash flow from continuing operations | **£2,487m** | £1,174m |
| Group adjusted net cash | **£1,199m** | £680m |
| Statutory operating (loss) / profit | **(£240m)** | £954m |
| Statutory (loss) / earnings attributable to shareholders | **(£782m)** | £1,210m |
| Statutory basic (loss) / earnings per share | **(13.3p)** | 20.7p |
| Statutory net cash flow from operating activities | **£1,314m** | £1,611m |

See notes 2, 5, 9, 10 and 11 to the Financial Statements and pages 88 to 92 for an explanation of the use of adjusted performance measures.

## Group performance indicators

| Year ended 31 December | 2022 | 2021 | Change |
|---|---|---|---|
| Total recordable injury frequency rate (per 200,000 hours worked) | **1.12** | 1.07 | 5% |
| Total customers ('000) [i] | **10,259** | 10,067 | 2% |
| Group direct headcount | **20,406** | 19,783 | 3% |
| Group colleague engagement (%) | **73%** | 55% | 18ppt |

(i) Includes British Gas Energy, British Gas Services and Bord Gáis Energy households and small and medium business customer sites in British Gas Energy and Centrica Business Solutions.

## Investor presentation

Centrica will hold its 2022 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 16 February 2023. There will be a live audio webcast of the presentation and slides. Please register to view the webcast at:

https://webcasts.centrica.com/centrica127/vip_connect

## Enquiries

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# Group Overview

## Strong operational and financial performance from our balanced portfolio

Centrica's operational performance was very good across 2022, against a backdrop of elevated and volatile commodity prices.

In our Upstream Infrastructure businesses, we saw good gas production volumes from Spirit Energy and higher availability and volumes from the Nuclear fleet, in addition to high levels of reliability from the re-opened Rough gas storage facility. In our Optimisation businesses, Energy Marketing & Trading (EM&T) delivered strong performance across its gas and power trading, route-to-market and LNG activities, while managing the Group's commodity exposure very well.

In our Retail businesses, we continued to invest in customer service and in preparing for the opportunities presented by the decarbonisation of homes in UK and Ireland. This resulted in higher net promoter scores in British Gas Energy and British Gas Services & Solutions, although adjusted operating profit was impacted in both these businesses by our investment in customer service, support and pricing, and weak commercial performance in British Gas Services & Solutions.

Reflecting this operational performance, underlying financial performance from our balanced portfolio was strong overall, with adjusted earnings per share up to 34.9p from 4.1p. The statutory loss per share was 13.3p, including a £2.4bn loss on certain re-measurements after taxation which reflects the revaluation of UK energy supply hedging positions due to falling wholesale gas and power prices towards the end of 2022. Free cash flow from continuing operations more than doubled to £2.5bn, and statutory net cash flow from operating activities reduced by £0.3bn to £1.3bn, which includes margin cash and collateral outflows of £1.2bn to support energy hedging and trading activity.

Having re-instated a progressive dividend with a 2022 interim payment of 1.0p per share, our first payment since 2019, we are proposing a final dividend per share of 2.0p which will take the full year dividend per share to 3.0p. In addition, in November we commenced a £250m share repurchase programme, in line with our approach to returning surplus structural capital to shareholders. With the existing programme projected to be completed by around May 2023, we intend to extend this by an additional £300m, which at the current share price would result in Centrica buying back approaching 10% of its issued shares in total since November 2022. The extension is subject to market conditions at the time the repurchase of the first £250m of shares is completed.

## The turnaround of Centrica is well advanced

Since 2020, we have been on a major transformational journey to turn the Company around and rebuild shareholder value. We set out three overlapping phases of this turnaround:

**1.** Simplify and de-risk the portfolio and strengthen the balance sheet;

**2.** Stabilise the business and improve operational performance;

**3.** Deliver growth and position ourselves for net zero.

We completed the first phase of the turnaround in the first half of 2022. The sale of Spirit Energy's Norwegian and Statfjord UK oil and gas assets, including the transfer of material decommissioning liabilities, closed in May 2022. This followed the completion of the sale of Direct Energy in January 2021. The Group had adjusted net cash of £1.2bn at the end of 2022, compared to adjusted net debt of nearly £4bn three years ago, with the reduction reflecting our ongoing strong focus on capital discipline and cash generation.

We are now well into the second phase. A key enabler of this has been the completion of the significant Group restructure to simplify and delayer the organisation. We are seeing tangible benefits from the resulting increased colleague empowerment and customer focus, with colleague engagement increasing

by 18 percentage points over 2022 to 73% and higher customer NPS scores. Although we still have areas in which we can improve, we have fixed the basics and are now able to move our focus to continuous improvement and delivering growth.

We are now increasingly engaging on the third phase - to deliver growth and position ourselves for net zero. We are continuing to build our capabilities across the Group, delivering net zero offers to customers, facilitating the build and operation of net zero assets through our EM&T route-to-market business, and investing in the energy transition - through both the construction of lower carbon flexible power generation assets and the progression of energy transition opportunities for our existing assets, such as Rough and Morecambe.

## Acting responsibly through the energy crisis

### Supporting customers

We are very aware of the difficult environment many customers are facing due to the high level of energy bills and wider inflationary impacts and we will continue to do what we can to support them.

We invested over £200m in customer service, support and pricing over 2022, including £50m of voluntary support to help domestic and business customers. We also recruited 700 additional UK-based customer service colleagues in British Gas Energy, allowing us to handle higher call volumes and be there when our customers need us.

Protecting vulnerable customers is a priority for us, and we have committed to donate 10% of both British Gas Energy and Bord Gáis adjusted operating profits to help until the current crisis is over. Therefore, we were extremely disappointed by the allegations surrounding one of our third-party contractors and their approach to pre-payment customers. We immediately took action to address this and are completing a thorough independent investigation.

We have been bolstering security of supply for our customers, with our EM&T business securing increased volumes of gas and renewable power, having announced our intention to exit gas supply agreements with Russian counterparties in March. New agreements include one with Equinor to deliver an additional 1 billion cubic metres of gas supplies to the UK for this winter and the following two, sufficient to heat a total of 4.5m homes. The reopening of Rough has also provided additional energy security over the current winter, while the strong operational performance of the Whitegate CCGT has been important for security of supply in Ireland.

### Supporting colleagues

We continue to support our colleagues through these challenging times. Pay deals have taken prevailing inflationary pressures into account, including two significant one-off cost of living support payments during the year, while we accelerated a portion of our 'profit share' employee payment from 2023 into 2022.

We continue to create new well paid jobs in our core markets. In addition to the recruitment of the 700 new customer service colleagues in British Gas Energy, 1,000 new apprentices have joined us since the start of 2021.

### Supporting communities

We take our responsibilities to our communities seriously. We provided £130m of support to vulnerable customers through the Warm Homes Discount, and with the pandemic over and public finances under pressure, we felt it was important we repaid £27m received under the Coronavirus Job Retention Scheme from the UK government. We have now paid nearly £1bn in tax related to 2022 profits, while we continue to encourage colleagues to use their skills and experience to help charities through volunteering, and in 2022 colleagues donated over 2,000 days. We also made further charitable donations, including to the Ukraine war appeal.

## Engaging constructively to help stabilise the UK energy market

**Stepping in to protect customers under the Supplier of Last Resort process**
Over the past 18 months over half of the UK's energy suppliers have ceased to trade, impacting over 4m customers and costing energy consumers billions of pounds. We have continued to play our part in supporting those affected customers, taking on over 150,000 in 2022 in addition to approximately 550,000 taken on in 2021.

Under Ofgem's regulatory framework, relevant costs, including costs of buying energy incurred by suppliers that they are not able to recover directly as a result of taking on Supplier of Last Resort (SoLR) customers, are recoverable through the industry levy. In December 2021 our claim for an initial £361m was accepted by Ofgem and a further claim for £172m was accepted in December 2022. £258m was paid to Centrica during 2022, meaning the remaining £275m recoverable has been recognised as a receivable in the 2022 financial statements.

**Supportive of aspects of regulatory change**
Ofgem have made a number of positive regulatory changes in response to the energy crisis.

In February, it was confirmed that the default tariff caps effective from 1 April 2022 would include additional allowances not only for the recovery of SoLR-related costs, but also other additional costs incurred by suppliers as a result of rising wholesale prices and volatility over the 2021/22 winter.

In April, Ofgem introduced the Market Stabilisation Charge (MSC) and a ban on acquisition-only tariffs. Both of these policies are aimed at protecting responsible and well-hedged energy suppliers if wholesale costs fall. Under the current parameters set by Ofgem, the MSC is triggered if wholesale prices fall by at least 10% compared to the cap index. In November 2022 the MSC was triggered for the first time. If a customer switches supplier when this happens the new supplier would need to reimburse the previous supplier for 85% of the hedged cost.

In February 2023, Ofgem extended the MSC and the ban on acquisition-only tariffs to 31 March 2024.

**Some further areas need addressing**
However, there are some areas of current regulation that need addressing. We believe more needs to be done to protect customers and give them full confidence in the robustness of the UK energy market.

Consumers ultimately pay for supplier failures through future energy tariffs or taxation, so we believe the energy retail market requires stronger prudential regulation to ensure those involved in the industry are fit and proper, companies have adequate capital and monitored risk management procedures, and customer deposits are fully protected. As a responsible supplier, we voluntarily separate gross customer deposits and held £643m in a separate account on 31 December 2022.

We believe a fundamental review of energy regulation is required to ensure the system is ready for the energy transition, works for consumers and allows well run suppliers to make an appropriate return to compensate for the risks taken.

## Simplifying and de-risking the portfolio

**Sale of Spirit Energy Norway and Statfjord field completed**
The sales of Spirit Energy's Norwegian E&P business and its interests in the Statfjord field to Sval Energi and Equinor respectively completed on 31 May 2022. The transactions resulted in a 98% reduction in Spirit Energy's 2021 closing oil and liquids proven and probable (2P) reserves, a 39% reduction in its 2021 closing gas 2P reserves and a £0.8bn reduction in its gross decommissioning liabilities to £1.2bn.

The headline consideration was $1,076m (approximately £800m), with a commercial effective date of 1 January 2021. The final consideration after adjusting for net cash flows generated by the disposed

businesses since the commercial effective date was £69m, including deferred commodity price linked consideration and a tax indemnity provided to Sval Energi.

Centrica owns 69% of Spirit Energy but fully consolidates Spirit Energy in the Group's financial statements. In 2022, Spirit Energy distributed the final consideration and post-tax net cash flows generated by the sale businesses since 1 January 2021 to Centrica and its joint venture partners, SWM Group, in proportion to their ownership. This was after adjusting for certain transaction taxes and costs, and amounts in respect of certain liabilities to be retained by the Spirit Energy Group. SWM Group's share of this distribution from Spirit Energy was £273m.

Under an amended shareholders' agreement with SWM Group, Spirit Energy's future strategy will be to realise value from its remaining portfolio of assets in the UK and the Netherlands, including pursuing opportunities to leverage infrastructure for net zero projects, while minimising further investment in oil and gas exploration and development. It will utilise cash from its operations to meet and de-risk decommissioning obligations in respect of its remaining portfolio, with future cash flows retained within Spirit Energy until projected future pre-tax decommissioning costs are 1.5 times covered. As at the end of 2022, Spirit Energy pre-tax decommissioning liabilities were £1.2bn, with decommissioning costs 0.9 times covered.

**Further non-core divestments**

We will also consider further divestments of smaller assets or businesses, if they help to simplify and de-risk the Group and we can realise good value for shareholders.

In 2022, we sold our interest in Driivz, an electric vehicle charging software provider, while Centrica Business Solutions also agreed to exit two small positions in the United States and Mexico.

## Business unit operational, commercial and financial performance

### Improved operational metrics but weak commercial performance in British Gas Services & Solutions, with increased challenges from cost of living and inflationary pressures

| British Gas Services & Solutions | **2022** | 2021 | Change |
|---|---|---|---|
| Services customers ('000) (closing) (i) | **3,141** | 3,428 | (8%) |
| Installs and on-demand jobs ('000) | **270** | 282 | (4%) |
| Services complaints per customer (%) (ii) | **12.6%** | 12.1% | 0.5ppt |
| Services Engineer NPS (iii) | **64** | 60 | 4pt |
| Adjusted operating (loss) / profit (£m) | **(9)** | 121 | (107%) |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December unless otherwise stated.

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

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

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

We continued to focus on fixing operational delivery in British Gas Services & Solutions in 2022, to improve the experience for our customers. We have been focused on recruitment, to enable us to complete a greater proportion of jobs using our own workforce, and in 2022 recruited over 800 engineers. This, coupled with a reduction in average sickness rates, resulted in improved capacity. Reflecting this, the number of rescheduled appointments fell from 11% to 6%, while Engineer NPS increased by 4 points to +64 over the year. Complaints per customer increased slightly to 12.6% as we still let some customers down, but improved in H2 2022 relative to H1 and further improvements in customer experience remains a focus for 2023.

Customer retention increased 1ppt to 83%, as we remained mindful of price changes that customers can absorb in the current economic environment, despite inflationary pressures on our own cost base.

However, sales remained challenging against the weak economic backdrop, and there was also an impact of our decision to pause proactive selling for a period earlier in the year to focus on delivery for our existing customers. Reflecting this, total customer numbers fell by 287,000, or 8%, over the year. We also continue to see a trend of more customers trading down to lower priced products within our HomeCare range, with the number of services products per customer dropping to 2.17 compared with 2.23 at the start of the year and 33% of HomeCare products now coming with an excess compared with 31% at the start of the year.

The total number of installs and on-demand jobs for the year fell by 4% compared with 2021. Within this boiler installations increased by 9%, but a changed sales mix resulted in a lower average gross margin per installation. However, with our focus on catching up on a backlog of Annual Service Visits, we completed nearly 600,000 more in 2022 than in 2021, which reduced capacity for on-demand work and resulted in a 10% fall in these type of jobs.

British Gas Services & Solutions adjusted operating loss was £(9)m in 2022 against an adjusted operating profit of £121m in 2021.

- The reversal of Covid-19 and industrial action impacts from 2021 totalling £50m was partially offset by temporary factors seen in the first half of 2022, specifically increased workload that we believe was a function of customers choosing to have non-urgent work completed which they had delayed during the Covid-19 pandemic, temporary higher absence rates and an increase in the payment of compensation to customers. These factors negatively impacted adjusted operating profit by approximately £25m.
- We continued to invest in the future of the business, through increasing our direct engineer capacity and upgrading core IT systems, to ensure we are able to better serve customers today and well placed to capture longer-term opportunities arising from the decarbonisation of heating in the UK. This investment in service resulted in a negative impact on operating profit of approximately £45m in 2022. Having now stabilised our operational metrics, we would expect recruitment costs to reduce in 2023, while we expect to start benefiting from our investments through improved engineer productivity and increased sales of net zero products.
- We also continue to see inflationary cost pressures, on both direct labour as we support our colleagues through the cost of living crisis, and on third party costs. We chose not to fully pass these through in pricing to our customers, resulting in a negative impact on adjusted operating profit of approximately £50m.
- Lower contract customer numbers coupled with customers trading down to lower priced products was a factor in the financial result, as was a changed boiler sales mix. These factors negatively impacted adjusted operating profit by approximately £60m. Improving commercial performance remains a focus and we have a clear commercial plan for 2023.

**Helping customers in British Gas Energy in a volatile and high price environment**

| British Gas Energy | 2022 | 2021 | Change |
|---|---|---|---|
| Residential energy customers ('000) (closing) (i) | **7,516** | 7,260 | 4% |
| Small business customer sites ('000) (closing) | **480** | 455 | 5% |
| Energy complaints per customer (%) (ii) | **14.4%** | 8.5% | 5.9ppt |
| Energy Touchpoint NPS (iii) | **13** | 11 | 2pt |
| Cost per residential energy customer (excl. bad debt) (£) | **83** | 84 | (1%) |
| Adjusted operating profit (£m) | **72** | 118 | (39%) |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December unless otherwise stated.

(i) Residential energy customers are defined as single households buying energy from British Gas.

(ii) Total complaints, measured as an expression of dissatisfaction in line with submissions made to Ofgem, as a percentage of average customers over the year.

(iii) 2021 restated to reflect the average weighted score by channel across the year. Measured independently, through individual questionnaires and the customer's willingness to recommend British Gas following contact.

We continued to focus on helping our customers in British Gas Energy in 2022, choosing to invest as much in customer service and support than we made in profits for the year, including through the UK's biggest ever energy support package totalling £50m.

Residential customer numbers increased by 256,000, or 4%, over 2022. This included a net increase of 158,000 customers who joined us through Ofgem's Supplier of Last Resort Process from Together Energy, while we also saw organic net growth of 98,000 in the year, against a backdrop of low levels of market switching. We also delivered a 25,000, or 5%, increase in the number of small business customers we serve, to 480,000, including organic net growth of 18,000.

With higher wholesale commodity prices resulting in significantly higher customer bills, we saw customer contact increase by almost a third compared to 2021, with greater customer focus on the level of their bill and direct debit payments. This led to a higher number of complaints, although almost 70% were resolved within a day, while Energy Touchpoint NPS improved to +13. We remain focused on ensuring we are able to handle an increased level of customer contact at this challenging time for many customers, and have now completed the recruitment of an additional 700 UK-based contact centre colleagues.

We continue to make good progress in migrating customer accounts in a controlled manner onto our new 'software as a service' IT platform. Around 2.2m customers have now been migrated onto the platform, more than double the amount at the half year, which combined with more modern ways of working is intended to enable a lower cost to serve and improved levels of customer service.

Cost per customer (excluding bad debt) decreased by £1 to £83 per customer, despite the impacts of inflation, a £3 impact of dual running IT costs and our investment in additional call centre agents, as we continue our drive to become more efficient. This figure excludes incremental voluntary support and donations.

British Gas Energy adjusted operating profit decreased by 39% to £72m, which largely reflects voluntary donations made to support customers and the repayment of furlough funds received by the Group in 2020.

- Rising wholesale commodity prices for much of the year meant that default tariffs remained cheaper than new fixed-price tariffs, resulting in more customers on default tariffs than we had hedged for. This required us to purchase more commodity at prices above the allowance in the price cap in Q1 2022, although with allowances introduced into the price cap from April 2022 to allow recovery for suppliers, the impact was broadly neutral in the year.

- Warmer than normal temperatures in H1 2022 resulted in lower demand and allowed the sale of surplus gas and power back into a high-priced market at a profit. Temperatures were also warmer in H2 2022, particularly in October and November. However, this came alongside a material fall in near-term commodity prices to levels below which we had forward purchased gas and power for our customers, and resulted in us selling surplus gas and power into the market at a loss. We also saw changing customer behaviour against a backdrop of higher customer bills, leading to a reduction in underlying consumption. Overall, the net impact of these factors on adjusted operating profit was slightly positive.
- The positive impact of increased residential customer numbers and average unit gross margins, and demand recovery from small business customers following the removal of Covid-19 restrictions, were more than offset by a £213m increase in the bad debt charge reflecting higher customer bills and the wider economic uncertainty.
- We also made a number of voluntary choices, including the repayment of £27m received by the Group under the UK Government's Coronavirus Job Retention Scheme, and investments totalling over £70m to support customers who need it most and in building our contact centre capacity to improve customer service resilience.

**Bord Gáis Energy retail energy supply was loss making in 2022, but we delivered good operational performance, including from the Whitegate CCGT which was back online**

| Bord Gáis Energy | 2022 | 2021 | Change |
|---|---|---|---|
| Customers ('000) (closing) | **526** | 509 | 3% |
| Complaints per customer (%) [(i)] | **2.2%** | 1.6% | 0.6ppt |
| Journey NPS [(ii)] | **19** | 30 | (11pt) |
| Adjusted operating profit (£m) | **31** | 28 | 11% |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December unless otherwise stated.

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

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

While Bord Gáis Energy saw the return to service of Whitegate CCGT, the retail energy supply business was loss making in 2022, reflecting our decision to protect customers and absorb higher commodity costs. We have committed to donate 10% of Bord Gáis adjusted operating profit to our energy support fund to help vulnerable customers for the duration of the current crisis.

The number of customers grew by 17,000 in 2022, with the addition of customers from failed suppliers, and good retention rates reflecting the support we provided for existing customers. Customer complaints increased slightly and Journey NPS fell by 11 points over the year, which reflects market-wide customer concerns over the sharp rise in retail tariffs due to the significant increase in global commodity prices.

Despite the loss in retail energy, which also includes the impact of higher bad debt and lower customer consumption from warmer weather and changing customer behaviour, Bord Gáis Energy adjusted operating profit increased by 11% to £31m, reflecting good wholesale trading performance and strong availability from the Whitegate CCGT, which was offline for most of 2021. This demonstrates the value of an integrated business model in Ireland.

As part of the push for increased security of supply and decarbonisation in Ireland, we have also taken a positive final investment decision on two 100MW flexible gas peaking plants in Athlone and Dublin, at an expected cost of over €250m.

### Strong management of commodity market volatility in Energy Marketing & Trading

| Energy Marketing & Trading (EM&T) | 2022 | 2021 | Change |
|---|---|---|---|
| Renewable capacity under management (GW) | **11.6** | 11.7 | (1%) |
| Total EM&T adjusted operating profit (£m) | **1,400** | 70 | 1,900% |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December unless otherwise stated.

Our EM&T business has a diverse portfolio of contracted positions and is very well positioned when commodity prices are high and/or volatile, given our in-depth understanding of energy markets and ability to manage system complexity. We deployed more working capital, with an outflow of £1.2bn relating to investment in gas inventory for our storage and LNG positions and unrealised profit on derivative positions. However, this investment was well rewarded, with material in-year profits from our Gas & Power trading, Route-to-Market and LNG activities.

In Gas & Power Trading, our contracted pipeline and interconnector positions across Europe allowed us to move gas and power between markets and benefit during periods of significant price dislocations. In addition, our significant gas storage positions meant we were able to benefit from volatility in seasonal spreads.

In Route-to-Market, we've grown one of Europe's largest third-party renewable energy portfolios, creating an advanced, cross-European virtual power plant, and in 2022 we also benefited from the higher power price environment. Capacity under management, including renewables and optimisation assets such as battery and CHP, increased to 15.4GW from 14.6GW of which approximately 75% are renewable technologies. The diverse range of markets we serve and technologies we offer are proving increasingly valuable, as more intermittent generation comes online across Europe to increase the importance of balancing services. We remain focused on growing our route-to-market capacity as more renewable assets come online across Europe.

Our LNG business was profitable in 2022, despite us having forward sold all cargoes from our Cheniere contract for 2022 delivery in times of lower geographical price spreads, as large differentials between US and European gas prices provided opportunity to capture additional value. In total we traded 284 physical cargoes in 2022 and we continue to look to build on our contractual positions. During the year, we signed a Heads of Agreement with Delfin to take 1 million tonnes of LNG from their floating facility in the Gulf of Mexico, with a final agreement being worked up and operations expected to commence in 2026.

The remaining legacy gas contract delivered a profit for the year of £19m (2021: loss of £85m). At current forward prices we expect adjusted operating losses to total around £100m across the period 2023 to 2025 when the contract ends, an improvement of £50m from our expectation at the time of the Interim Results last July.

Reflecting the strong management of high and volatile commodity markets, EM&T adjusted operating profit was £1,400m (2021: £70m).

### Delivering improved gross margin and building lower carbon and flexible generation assets in Centrica Business Solutions

| Centrica Business Solutions | 2022 | 2021 | Change |
|---|---|---|---|
| Energy supply total gas and electricity volume (TWh) | **22.3** | 22.3 | nm |
| Energy supply complaints per customer (%) (i)(ii) | **9.1%** | 6.1% | 3.0ppt |
| Energy supply Touchpoint NPS (iii) | **31** | 21 | 10pt |
| Services order intake (£m) (iv) | **212** | 371 | (43%) |
| Services order book (£m) (iv) | **670** | 685 | (2%) |
| Adjusted operating profit / (loss) (£m) | **44** | (52) | (185%) |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December unless otherwise stated.

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

(ii) 2021 restated as previously shown on a per site basis.

(iii) Measured independently, through individual questionnaires and the customer's willingness to recommend.

(iv) 2021 restated following re-segmentation of activity to EM&T.

The amount of energy supplied by Centrica Business Solutions to medium and large sized businesses was flat at 22.3TWh compared to 2021, with the easing of Covid-19 restrictions and underlying growth in medium sized business volumes being offset by the impacts of warmer weather and lower underlying customer demand in response to higher prices and the economic climate. Customer complaints increased, reflecting increased customer concern around higher energy prices, however Touchpoint NPS increased to +31 reflecting investments to improve overall customer service.

Services order intake of £212m was 43% lower than in 2021, driven by actions taken to focus the business and weaker uptake in the UK. The Services order book of £670m was broadly stable, ending the year 2% lower than in 2021.

Centrica Business Solutions operates a portfolio of flexible generation assets, principally a 49MW battery at Roosecote and a 49MW gas-peaking plant at Brigg. These assets performed well in the year, playing important roles for UK security of supply during times of high demand or reduced system availability. A further five large scale projects totalling nearly 150MW are currently under construction, including a 18MW solar farm at Codford, a 50MW battery at Brigg and a 30MW battery at Dyce.

Centrica Business Solutions reported an adjusted operating profit of £44m (2021: loss of £52m). Energy supply reported a significant improvement in adjusted operating profit to £73m (2021: £1m) driven by strong gross margins, which included gains from the sell back of excess hedged volumes in periods of warmer weather and lower underlying customer demand. These impacts were partially offset by an increase in the bad debt charge reflecting the current weaker economic environment.

Energy Services and Assets reported a reduced adjusted operating loss of £29m (2021: loss of £53m), reflecting higher gross margin capture due to improved operational focus and lower operating costs due to recent efforts to refocus the business.

**Strong gas production and nuclear generation volumes and Rough reopened as a storage asset**

| Upstream | 2022 | 2021 | Change |
|---|---|---|---|
| E&P total production volumes (mmboe) | **27.0** | 39.7 | (32%) |
| Nuclear power generated (GWh) | **8,719** | 8,342 | 5% |
| Adjusted operating profit (£m) | **1,793** | 663 | 170% |

All 2022 metrics and 2021 comparators are for the 12 months ended 31 December.

Please note that profit and inventory from Rough operations are reported under Centrica Storage Limited for presentational purposes only. Centrica Storage Limited does not produce, supply or trade gas, except to the extent necessary for the efficient operation of the storage facility. In accordance with the Gas Act 1986, such production, supply and trading of gas is carried out wholly independently of Centrica Storage Limited by other Centrica group companies.

Total E&P production was down 32% to 27.0mmboe. When excluding the disposed Spirit Energy assets, production was flat at 20.7mmboe.

- Total volumes from the retained Spirit Energy were down 2% to 17.5mmboe. Liquids volumes fell from 2.1mmboe to 1.2mmboe, with remaining 2P liquids reserves now only 1mmboe. Gas production volumes business increased by 3% to 16.3mmboe, reflecting strong operational performance at the Greater Markham Area and Cygnus.
- Production volumes from Centrica Storage's Rough field increased by 9% to 3.2mmboe, reflecting strong operational performance as a production asset in the first half of the year, with the asset then returning to gas storage operations in September 2022.

Centrica's share of nuclear generation volumes of 8.7TWh was 5% higher than 2021, despite the end of generation at Hunterston B in January and Hinkley Point B in August, reflecting improved plant reliability.

Upstream adjusted operating profit increased to £1,793m (2021: £663m). Excluding the disposed Spirit Energy assets, adjusted operating profit was £1,308m (2021: £107m).

- The retained Spirit Energy business reported an adjusted operating profit of £245m (2021: £68m), with higher wholesale commodity prices resulting in a higher achieved price, despite the impact of hedging. This was partially offset by a higher depreciation charge following impairment write-backs in 2021.
- Centrica Storage adjusted operating profit was £339m (2021: £77m). This reflects strong production from Rough in the first half of 2022 during periods of high commodity prices, and capture of higher seasonal gas price spreads in the second half of the year following Rough's return to storage operations.
- Nuclear reported adjusted operating profit was £724m (2021: loss of £38m), reflecting strong generation volumes and higher achieved prices.

## Delivering a strong financial performance

**Strong adjusted operating profit and earnings**
Adjusted EBITDA increased to £3,993m (2021: £1,850m) and adjusted operating profit increased to £3,308m (2021: £948m), reflecting the movements in business unit adjusted operating profit as described in the previous section.

The net finance charge fell to £143m (2021: £187m) reflecting the impact of higher interest rates on cash deposits. The effective tax rate on adjusted operating profit decreased to 34% (2021: 59%), largely due to the change in profit mix towards Energy Marketing & Trading and Nuclear.

Reflecting the above, adjusted earnings attributable to shareholders increased to £2,050m (2021: £237m) and adjusted basic EPS from continuing operations was 34.9p (2021: 4.1p). Excluding earnings from the disposed Spirit Energy assets, adjusted basic EPS was 34.2p (2021: 2.8p).

**Statutory loss largely reflects negative re-measurements of energy contracts**
Total exceptional items recognised in continuing operations after tax generated a loss of £362m (2021: profit of £997m), with a loss on disposal on the Spirit Energy Norway assets and the recognition of higher deferred tax liability balances related to the implementation of the Energy Profits Levy, partially offset by a write-back of our nuclear investment related to higher forecast power prices.

A loss from net re-measurements after tax of £2,393m (2021: loss of £755m) was recognised, largely relating to the re-measurements of UK energy supply forward purchases, with commodity prices having fallen towards the end of 2022. These should unwind over future periods.

Reflecting these exceptional items and certain remeasurements, a statutory loss after taxation of £636m was recognised (2021: profit of £1,173m). After non-controlling interests, the statutory loss was £782m (2021: profit of £1,210m) with a basic EPS loss of 13.3p (2021: profit of 20.7p).

**Further robust cash flow generation and continued balance sheet strength**
Although adjusted EBITDA increased by £2,143m, free cash flow from continuing operations was only £1,313m higher, at £2,487m. This is largely growth related, in that it reflects £434m of higher tax payments related to the increased adjusted operating profit, and a £515m increase in working capital, with unrealised profit on derivative positions in Energy Marketing & Trading and increased gas inventory value in Energy Marketing & Trading and in Centrica Storage, partly offset by the acceleration of cash flows received in British Gas Energy due to the implementation of Government customer support schemes.

Statutory net cash flow from continuing operating activities was £1,314m, £297m lower than in 2021, with the difference between this reduction and the increase in free cash flow largely related to a £1,173m negative movement in margin cash, compared to a £481m inflow in 2021. This reflects commodity purchases for our UK energy supply customers being out the money as prices fell towards the end of the year.

Interest and pension deficit payments were both lower in 2022 than in 2021. A payment of £273m was made to the minority shareholders of Spirit Energy, representing their share of cash flows generated since 1 January 2021 from the disposed Spirit Energy businesses. Reflecting these movements the Group had adjusted net cash of £1,199m at the end of 2022 compared to adjusted net cash of £680m at the end of 2021.

We retain significant access to liquidity. At the end of 2022, the Company had £3.7bn of unrestricted cash and cash equivalents (net of bank overdrafts) and £4.0bn of undrawn credit facilities.

## Pensions triennial valuation

The Group's IAS 19 net pension surplus was £40m at the end of 2022, compared to £nil at 31 December 2021, with the impact of pension deficit contributions during the year being partially offset by net actuarial losses.

The technical provisions deficit is based on more conservative assumptions and is used to determine the agreed level of cash contributions into the schemes. In September 2022, we reached agreement with the pension trustees on a March 2021 technical provisions deficit of £944m, with annual deficit contributions remaining unchanged. On a roll-forward basis using the same methodology, consequent assumptions and contributions paid, the technical provision deficit would be in the region of £850m at 31 December 2022.

Having proactively managed the volatile gilts market during the second half of 2022 and with interest rate and hedging levels above 90%, we see pensions as an area of much reduced volatility in the future.

## A progressive dividend policy and returning surplus structural capital to shareholders

The ordinary dividend was reinstated at the Interim Results, with an interim dividend per share of 1.0p. We are declaring a 2022 final dividend of 2.0p per share, which takes the full year dividend to 3.0p. Longer term, we expect the dividend to be progressive and dividend cover from earnings to move to around 2x over time, recognising the ratio is likely to vary each year dependent on the business cycle.

Reflecting the 2022 performance and outlook, together with the work undertaken in recent years to strengthen the balance sheet and ensure appropriate liquidity, we announced in November 2022 the commencement of a £250m share repurchase programme. As at 15 February, we had repurchased £113m of shares. With the existing programme projected to be completed by around May 2023, we intend to extend this by an additional £300m, which at the current share price would result in Centrica buying back approaching 10% of its issued share capital in total since November 2022. The extension is subject to market conditions at the time the repurchase of the first £250m of shares is nearing completion.

## 2023 outlook

As always there are a range of external factors outside of our control, most materially weather, commodity prices, the economic backdrop and any changes to regulation of government policy. This results in a range of outcomes for many of our business units.

However, a lot of focus over the past few years has been on creating a balanced portfolio and improving the foundations of the Group. This leaves us well placed to profitably manage a range of external environments. We have also developed good growth options and would expect capital expenditure to increase in 2023 compared with 2022.

In our Retail businesses, we will continue to invest in further improvement in our operations. In British Gas Services & Solutions in particular, our focus is on improving commercial performance and we are looking to drive some financial recovery in 2023.

In Optimisation, although we do not plan for conditions seen in 2022 to repeat in 2023, we have sold forward LNG cargoes at a profit on average, and where volatility remains a factor, our strong capabilities and contractual positions should enable us to capture value in physical storage, pipelines, LNG and generation off-take. We expect to continue to invest working capital in this area.

In our Upstream Infrastructure businesses, although wholesale prices have been falling since towards the end of 2022, they remain elevated compared to historic levels. With hedges rolling off, we would expect to see higher captured prices in our gas production and nuclear activities, albeit earnings will be significantly impacted year on year by the implementation of additional upstream levies. As of 31 December 2022, Spirit Energy had sold forward 640mmth of gas for 2023 at an average price of 106p/therm and 361mmth

of gas forward for 2024 at an average price of 184p/therm. As at the same date, we had sold 5.0TWh of electricity forward for 2023 in Nuclear at an average price of £203/MWh and 1.4TWh forward for 2024 at an average price of £240/MWh, while Centrica Storage had forward sold 165mmth of gas in store at a price that generates an average spread of 161p/therm.

## Delivering growth and positioning ourselves for net zero

Centrica is a uniquely integrated energy company. We have a balanced portfolio, in what are increasingly imbalanced energy systems across the world and we have significant growth and investment opportunities across the energy value chain.

We will invest in our retail businesses to deliver net zero propositions for customers. We will utilise our world class energy trading and optimisation capabilities to support the build out of our own and third party renewable and flexible assets across Europe. We will also invest in existing assets, repurposing carbon emitting assets into net zero infrastructure.

### Growth potential in Retail

We are well positioned to deliver growth in Retail. The decarbonisation of heat will drive substantial demand for new heating systems and as the UK's largest installer and servicing provider of such systems, this is a real opportunity. There are 28 million homes in the UK and 3 million in the Republic of Ireland – and the majority of them will require some form of change to their heating systems to ensure net zero is achieved.

We have the largest energy services field force of around 7,000 engineers in the UK and our award-winning in-house training academies provide us with a competitive advantage, allowing us to both train and certify our own apprentices and upskill our engineers to install heat pumps, electric vehicle charging points, smart meters and hydrogen-ready boilers.

We will need to continue to improve our operational and commercial performance to take maximum advantage of these opportunities. That is why we are investing in customer service and productivity, which should over time drive improved retention and market share growth.

We are already taking steps to prepare ourselves for the future. We have set up a Net Zero business within British Gas Services & Solutions, whose mission will be to support our customers on their journey to net zero, and in January 2023 we launched the cheapest heat pump offer in the UK market, having already installed more heat pumps in the UK than any other company.

In addition, our investment in the new energy supply platform will ensure that we can give our customers demand response possibilities. A number of our British Gas Energy customers have been invited to sign up for our "Peak Save" trial initiative, which provides financial incentives for using less electricity during times of peak usage. We intend to roll this initiative out more widely in the future.

### Optimisation capabilities aligned to the energy transition

We have always had a requirement to manage our commodity exposure and risk in core markets, given the scale of our retail and infrastructure positions, and the expertise we have gained through doing this is very valuable. We have strong people and technology capabilities in gas and power balancing and trading, and with European energy markets increasingly interlinked, we have expanded our activities outside our core markets of the UK and Ireland.

In total, we now trade in 24 countries across Europe and employ over 600 colleagues across our main offices in Aalborg, London and Antwerp. Our activity is generally underpinned by contractual positions, including for pipeline and interconnector capacity, and 11TWh of gas storage across the UK and Continental Europe. We also manage over 16GW of third party renewable and flexible assets in our route-to-market business, which provides market access and balancing services for customer owned assets.

With an increased proportion of renewables coming online this creates a great opportunity for us, both due to the growing size of the market and due to the volatility in prices created by the increased intermittency of renewable generation.

We also manage a global LNG portfolio. In addition to capacity at the Isle of Grain regassification facility and our long term US export contract with Cheniere, we have been building up a number of medium term positions that de-risk and optimise the overall LNG portfolio. We have a strong team with a deep understanding of the LNG market and its logistics and will continue to seek options to de-risk and potentially grow, enabled by our stronger balance sheet and deep knowledge of global gas markets.

We already build and maintain customer assets as well as our own through Centrica Business Solutions. Combined with our world class optimisation capability and access to huge amounts of market data, this gives us confidence that we can compete across the value chain, investing Centrica's capital in assets and monetising them.

**Deploying capital in infrastructure for value**

Investment in the UK and Ireland energy systems is expected to increase materially in the next decade, with nearly £200 billion expected to be spent between 2021 and 2030 driven by government decarbonisation targets and the push for increased security of supply.

The majority of this investment is projected to come from intermittent renewable technologies such as wind and solar. However, a combination of technologies will be required, creating opportunities for companies with strong balance sheets, flexible business models and detailed knowledge of markets.

This creates opportunities for Centrica, and we currently see our main areas of investment focus are likely to be battery storage, gas peaking generation, solar, hydrogen and carbon capture utillisation and storage (CCUS). The focus will be on our core markets of the UK and Ireland.

**Investing in small scale flexible generation**

Potential investments in small scale, flexible generation will be aligned to our existing capabilities and we will focus on sites which are already connected to the electricity grid. We own operational assets in the UK and Ireland, including a battery at Roosecote, a gas peaking plant at Brigg and the Whitegate CCGT in Ireland. We have also been progressing a number of new projects over 2022 and now have over £400m of in-train projects.

An 18MW solar farm in Wiltshire in the UK is already operational, while in the second half of 2022 we made positive final investment decisions on three new battery storage investments which are expected to cost around £100m in total - a 50MW project on the site of the now closed Brigg CCGT; a 30MW project in Dyce, near Aberdeen, which will help manage load from North Sea offshore wind farms; and, a 24MW project in Ostend in Belgium. In January 2023, we acquired the site of a former gas-fired power plant at Knapton in North Yorkshire, with plans to develop a 28MW battery.

We have now made a positive final investment decision on two 100MW gas peaking plants in Dublin and Athlone in the Republic of Ireland, at an expected cost of around €250m. And in the UK, we have approved the build of a further two gas peaking plants for an expected cost of around £70m, an additional 48MW gas peaking plant at Brigg and a 20MW plant at Redditch.

Including these projects, we have brownfield sites across the UK and Ireland that could support over 1GW of new flexible generation capacity over the next five years.

We also have the potential to deploy capital into renewables with partners, which can also provide market access for our route-to-market activities.

**Repurposing existing assets for net zero and preparing for hydrogen**

We own E&P and Nuclear assets today, however their lifespan is limited. We have a great opportunity to reinvest cash flows generated by these assets to turn them into net zero assets, which will continue to provide the balance our portfolio benefits from today.

Centrica Storage has a 10 year gas storage licence and in the second half of the year we reopened Rough as a gas storage asset, with the asset having played an important role in supporting energy security of supply over the 2022/23 winter. We retain optionality to invest capital to increase capacity beyond the current 30bcf level and longer term we have the option to convert Rough into a hydrogen storage asset. We currently estimate that this project would cost in the region of £2bn and believe it will require an appropriate support mechanism from the UK Government.

We also continue to assess longer-term options for the Spirit Energy-owned Morecambe gas field, which could prove to be an attractive asset for CCUS. We continue to develop plans and have now submitted an application for a carbon storage licence.

We are also looking to build out further expertise in both hydrogen and carbon capture, taking a number of small and nascent positions. We have a minority stake in HiiROC, whose proprietary technology converts gas into clean hydrogen, and in November 2022 signed a Memorandum of Understanding with Ryze Hydrogen to look at jointly building and operating hydrogen production facilities, and a co-operation agreement with Equinor to explore developing a low-carbon production hub at the Easington site.

These assets will help accelerate the energy transition while also improving security of supply in core markets. We will continue to assess opportunities against a robust framework, with each project needing to deliver suitable returns commensurate with the risk undertaken.

We intend to provide more detail on our longer-term investment plans and expected returns alongside the 2023 Interim Results in July.

## A simpler, de-risked, more efficient company with attractive net zero opportunities

Centrica is a uniquely integrated energy company, with strong positions, capabilities and growth opportunities across retail, optimisation and infrastructure.

We have significantly simplified and de-risked Centrica over the past three years, eliminating net debt, reducing decommissioning liabilities and reducing pension liabilities, and our strong balance sheet and balanced portfolio has served us well through the ongoing energy crisis.

We have made good progress in improving operational performance. We are on a much more stable footing now, with the focus on continuous improvement and better commercial performance.

We have the capability and financial strength to invest in attractive net zero opportunities, subject to appropriate returns.

We will continue to focus on delivering simply, sustainably and affordably for our customers and on delivering attractive cash returns for our shareholders, through our progressive dividend and, where appropriate, additional returns of structural capital through share repurchases.

# Group Financial Review

## Revenue

Group statutory revenue increased by 61% to £23.7bn (2021: £14.7bn). Group revenue included in business performance, which includes revenue arising on contracts in scope of IFRS9 (see note 5b for further details), increased by 84% to £33.6bn (2021: £18.3bn).

Gross segment revenue, which includes revenue generated from the sale of products and services between segments, increased by 82% to £37.2bn (2021: £20.5bn). This was driven largely by the impact of higher wholesale commodity prices on Energy Marketing & Trading and Upstream, and the impact of higher wholesale prices on retail tariffs in British Gas Energy, Bord Gáis Energy and Centrica Business Solutions.

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

| | | | 2022 | | | 2021 |
|---|---|---|---|---|---|---|
| Year ended 31 December | **Gross segment revenue £m** | **Less inter-segment revenue £m** | **Group revenue £m** | Gross segment revenue £m | Less inter-segment revenue £m | Group revenue £m |
| British Gas Services & Solutions | **1,527** | **(50)** | **1,477** | 1,513 | (53) | 1,460 |
| British Gas Energy | **13,096** | **—** | **13,096** | 7,513 | — | 7,513 |
| Bord Gáis Energy | **1,771** | **—** | **1,771** | 1,111 | — | 1,111 |
| Centrica Business Solutions | **3,000** | **(19)** | **2,981** | 1,981 | (28) | 1,953 |
| Energy Marketing & Trading | **14,441** | **(219)** | **14,222** | 6,082 | (214) | 5,868 |
| Upstream | **3,351** | **(3,261)** | **90** | 2,282 | (1,887) | 395 |
| **Group revenue included in business performance** | **37,186** | **(3,549)** | **33,637** | 20,482 | (2,182) | 18,300 |
| Less: revenue arising on contracts in scope of IFRS 9 included in business performance | | | **(9,896)** | | | (3,556) |
| **Group Revenue** | | | **23,741** | | | 14,744 |

## Operating profit / (loss)

Adjusted operating profit increased to £3,308m (2021: £948m). Excluding the disposed Spirit Energy assets, adjusted operating profit increased to £2,823m (2021: £392m). The statutory operating loss from continuing operations was £240m (2021: profit of £954m). The difference between the two measures of profit relates to exceptional items and certain remeasurements, which are explained on pages 20-22. A table reconciling the different profit measures is shown below:

| Year ended 31 December | Notes | **2022** Business performance £m | Exceptional items and certain re-measurements £m | Results for the year £m | **2021** Business performance £m | Exceptional items and certain re-measurements £m | Results for the year £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| British Gas Services & Solutions | | **(9)** | | | 121 | | |
| British Gas Energy | | **72** | | | 118 | | |
| Bord Gáis Energy | | **31** | | | 28 | | |
| Centrica Business Solutions | | **44** | | | (52) | | |
| Energy Marketing & Trading | | **1,400** | | | 70 | | |
| *Core EM&T* | | *1,381* | | | *155* | | |
| *Legacy gas contract* | | *19* | | | *(85)* | | |
| Upstream | | **1,308** | | | 107 | | |
| *Spirit Energy (retained)* | | *245* | | | *68* | | |
| *Centrica Storage* | | *339* | | | *77* | | |
| *Nuclear* | | *724* | | | *(38)* | | |
| Profit Share | | **(23)** | | | — | | |
| **Total Group excluding Spirit Energy disposed assets** | | **2,823** | | | 392 | | |
| *Spirit Energy disposed assets* | | *485* | | | *556* | | |
| **Group operating profit/ (loss)** | 5(c) | **3,308** | **(3,548)** | **(240)** | 948 | 6 | 954 |
| Net finance cost | 7 | **(143)** | **—** | **(143)** | (187) | — | (187) |
| Taxation | 8 | **(1,046)** | **793** | **(253)** | (454) | 236 | (218) |
| **Profit/(loss) from continuing operations** | | **2,119** | **(2,755)** | **(636)** | 307 | 242 | 549 |
| Profit attributable to non-controlling interests | | **(69)** | **(77)** | **(146)** | (70) | 107 | 37 |
| **Adjusted earnings from continuing operations attributable to shareholders** | | **2,050** | **(2,832)** | **(782)** | 237 | 349 | 586 |
| Discontinued operations | | **—** | **—** | **—** | — | 624 | 624 |
| **Adjusted earnings attributable to shareholders** | | **2,050** | **(2,832)** | **(782)** | 237 | 973 | 1,210 |
| *Adjusted earnings attributable to shareholders excluding disposed Spirit Energy assets* | | *2,005* | | | *162* | | |

Profit and inventory from Rough operations are reported under Centrica Storage Limited for presentational purposes only. Centrica Storage Limited does not produce, supply or trade gas, except to the extent necessary for the efficient operation of the storage facility. In accordance with the Gas Act 1986, such production, supply and trading of gas is carried out wholly independently of Centrica Storage Limited by other Centrica group companies.

**Group operating profit from business performance (adjusted operating profit)**
The increase in adjusted operating profit was primarily in Energy Marketing & Trading, with our diverse range of contractual gas storage, pipeline and power generation capacity proving very valuable in elevated and volatile commodity markets, and in Upstream, reflecting strong gas production and nuclear generation volumes against a backdrop of higher commodity prices and the return of Rough to gas storage operations.

In Retail, British Gas Energy profit fell, as we provided £50m of additional support to customers struggling in the current environment, while British Gas Services & Solutions reported a small loss, as we invested in improving customer service and pricing, and saw weak commercial performance against a challenging external backdrop.

More detail on specific business unit adjusted operating profit performance is provided in the Group Overview on pages 6 to 12.

## Group finance charge and taxation

**Finance costs**
Net finance costs from continuing operations decreased to £143m (2021: £187m), largely due to an increase in interest income on cash balances reflecting higher UK interest rates. Interest costs on bonds, bank loans and overdrafts were slightly down, with the impact of the decision to redeem the €750m hybrid bond at its first call date in April 2021 and the further maturity of two bonds in early 2022 largely offset by the impact of the higher interest rate environment on floating debt.

**Taxation**
Business performance taxation on profit from continuing operations increased to £1,046m (2021: £454m). After taking account of tax on joint ventures and associates, the adjusted tax charge was £1,077m (2021: £433m).

The resultant adjusted effective tax rate for the Group was 34% (2021: 59%), with the profit mix moving away from highly taxed E&P activities.

The adjusted effective tax rate calculation is shown below:

| Year ended 31 December | **2022<br>£m** | 2021<br>£m |
|---|---|---|
| Adjusted operating profit before impacts of taxation | **3,308** | 948 |
| Add: JV/associate taxation included in adjusted operating profit | **31** | (21) |
| Net finance cost from continuing operations | **(143)** | (187) |
| Adjusted profit before taxation | **3,196** | 740 |
| Taxation on profit from continuing operations | **(1,046)** | (454) |
| Share of JV/associate taxation | **(31)** | 21 |
| Adjusted tax charge | **(1,077)** | (433) |
| Adjusted effective tax rate | **34%** | 59% |

## Exceptional items and certain re-measurements

Total certain re-measurements and exceptional items from continuing operations included within Group operating profit generated a pre-tax loss of £3,548m (2021: profit of £6m), made up of a loss on certain re-measurements of £3,393m (2021: loss of £1,241m) and an exceptional loss of £155m (2021: profit of £1,247m).

Total certain re-measurements and exceptional items from continuing operations generated a tax credit of £793m (2021: £236m), with a credit of £1,000m (2021: £486m) related to certain re-measurements and a charge of £207m (2021: £250m) related to exceptional items from continuing operations.

**Certain re-measurements**

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

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

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

The operating profit in the statutory results includes a net pre-tax loss for continuing operations of £3,393m (2021: loss of £1,241m) relating to re-measurements, comprising:

- A net loss of £5,160m on the re-measurement of derivative energy contracts. With the Group generally a net purchaser of commodity, we saw a negative revaluation of energy supply contract hedge purchases entered into over 2022 due for delivery in future periods given the reductions in forward commodity prices towards the end of the year, after the contracts were entered into. These re-measurements should unwind as the commodity is delivered to customers, mostly in H1 2023. In addition there was an unwind of in-the-money positions for the UK downstream energy supply business from December 2021 as the commodity was delivered to customers in 2022. The net negative impact of these two factors was £6,364m. This was partially offset by the unwind of Upstream and Energy Marketing & Trading out-the-money positions from December 2021, together with the revaluation of their sell trades due for delivery in future periods. The net positive impact of these two factors was £1,204m.
- A £1,766m release from the onerous energy supply contract provision. As the Group purchases the commodity required for future supply in advance, the decline in commodity prices towards the end of 2022 meant the costs of fulfilling residential downstream customer contracts would now be lower than the fixed/capped charges recoverable from customers. As a result, this portion of the provision has been reversed. The remaining provision of £999m relates to non-domestic customers on longer-term fixed contracts agreed at levels below the current forward commodity prices. The gain from releasing this provision will offset losses from the ultimate unwinding of in-the-money hedge positions, without affecting the ultimate profitability of the underlying transactions.
- There was also a £1m net gain arising on re-measurement of certain associates' contracts (net of taxation).

These re-measurements generated a taxation credit of £1,000m (2021: credit of £486m), including £473m associated with re-basing deferred tax on certain relevant derivatives for the Energy Profits Levy. As a result, the total loss from net re-measurements after taxation for continuing operations was £2,393m (2021: loss of £755m).

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

Further details can be found in note 6(a).

**Exceptional items**

An exceptional pre-tax charge of £155m was included within the statutory Group operating profit from continuing operations in 2022. In 2021, an exceptional pre-tax profit of £1,247m was recognised, largely relating to the write-back of Upstream gas production and electricity generation assets.

The 2022 pre-tax exceptional charge was made up of:

- A charge of £362m relating to the Spirit Energy Norwegian E&P and Statfjord disposal, which completed on 31 May 2022. See note 15 for further details.
- A £207m write-back of power assets, predominantly relating to the write-back of the nuclear investment as a result of higher forecast forward commodity prices, largely offset by the projected impact of the Electricity Generator's levy announced in November 2022 and applicable from 1 January 2023.

The taxation charge on exceptional items was £207m (2021: £250m), which includes a £121m credit associated with deferred tax provisions related to E&P tax losses and decommissioning carry-back, due to the increase in forecast commodity prices and an exceptional £325m charge from the recognition of higher deferred tax liability balances due to the implementation of the Energy Profits Levy.

As a result, the total post-tax exceptional loss recognised in continuing operations after taxation was £362m (2021: profit of £997m).

Further details on exceptional items, including on impairment accounting policy, process and sensitivities can be found in notes 6(b) and 6(c).

## Discontinued operations

There was no adjusted operating profit or adjusted earnings from discontinued operations in 2021 or 2022. Statutory earnings of £624m from discontinued operations in 2021 are related to the profit on disposal and release of a tax provision following the disposal of Direct Energy, which completed on 5 January 2021.

## Group earnings

**Adjusted earnings**

Profit for the year from business performance from continuing operations after taxation was £2,119m (2021: £307m). After adjusting for non-controlling interests relating to Spirit Energy, adjusted earnings were £2,050m (2021: £237m). Excluding the disposed Spirit Energy assets, adjusted earnings were £2,005m (2021: £162m).

Adjusted basic EPS was 34.9p (2021: 4.1p). Excluding Spirit Energy assets, adjusted basic EPS was 34.2p (2021: 2.8p).

**Statutory earnings**

After including exceptional items, certain re-measurements and earnings from discontinued operations, the statutory loss attributable to shareholders for the period was £782m (2021: profit of £1,210m).

The Group reported a statutory basic EPS loss of 13.3p (2021: profit of 20.7p, of which 10.0p related to continuing operations).

**Dividend**
In addition to the interim dividend of 1.0p per share, the proposed final dividend is 2.0p per share, giving a total full year dividend of 3.0p per share (2021: nil).

## Group cash flow, net debt and balance sheet

**Group cash flow**
Free cash flow is the Group's primary measure of cash flow as management believe it provides relevant information to show the cash generation of the business after taking account of the need to maintain its capital asset base. Free cash flow is reconciled to statutory net cash flow from operating and investing activities in the table below. See the explanatory note in note 5(f) for further details.

| Year ended 31 December | **2022 £m** | 2021 £m |
|---|---|---|
| Statutory cash flow from continuing operating activities | **1,314** | 1,611 |
| Statutory cash flow from continuing investing activities | **(566)** | (325) |
| Statutory cash flow from continuing operating and investing activities | **748** | 1,286 |
| Add back/(deduct): | | |
| Sale and purchase of securities | **398** | 3 |
| Interest received | **(46)** | (2) |
| Movements in collateral and margin cash | **1,173** | (481) |
| Defined benefit pension deficit payments | **214** | 368 |
| Free cash flow from continuing operations | **2,487** | 1,174 |
| Discontinued operations free cash flow | **—** | 2,588 |
| Free cash flow | **2,487** | 3,762 |

Net cash flow from continuing operating activities of £1,314m was down 18% (2021: £1,611m), with the impact of higher adjusted EBITDA partially offset by higher tax payments, and material working capital and collateral and margin cash outflows.

These significant working capital movements were largely a reflection of the higher commodity price environment and UK Government initiatives to address this. British Gas Energy saw a working capital inflow of £1.1bn in the year reflecting the introduction of the Energy Price Guarantee and Energy Bill Support Scheme, which resulted in earlier payment than under standard consumer payment patterns. EM&T saw a large working capital outflow of £1.2bn driven by a higher volume of gas inventory and by the timing of settlements on trading cash flows. In addition, we invested £0.4bn of working capital in Rough, having injected 16bcf into gas storage.

We saw a £1.2bn outflow of collateral and margin cash. In an elevated and volatile commodity price environment, initial margin requirements are greater and the likelihood of large movements on variation margin are also increased. At the end of 2022, commodity purchases made for our retail customers were out the money as prices fell towards the end of the year. We would expect these outflows to reverse in future periods, as we deliver the commodity to customers.

Net cash outflow from continuing investing activities increased to £566m (2021: £325m), with lower net investment in gas production more than offset by higher net investment in non-E&P activities and a £400m loan to the pension schemes in October 2022 to help them manage through volatile market conditions.

Group total free cash flow from continuing operations was £2,487m (2021: £1,174m), as reconciled to statutory cash flow measures in the table above.

Net cash outflow from continuing financing activities remained broadly unchanged at £917m (2021: £938m) with the two bond repayments in February and March 2022 resulting in lower cash outflow than

from the hybrid redemption in 2021, offset by the impacts of the distribution of £273m to Spirit Energy's minority partner relating to the disposal of Spirit Energy's Norway assets and the recommencement of returns to shareholders through the payment of a 2022 interim dividend and the buyback of shares as part of the Group's £250m share repurchase programme.

**Group adjusted net cash**

The above resulted in a £169m decrease in cash and cash equivalents over the year, and when including the impact of reduced gross debt resulting from the bond repayments, the loan to the pension schemes and lease adjustments, the Group's adjusted net cash position at the end of December 2022 was £1,199m, compared to £680m on 31 December 2021.

Further details on the Group's sources of finance and net debt are included in note 11.

**Pension deficit**

The Group's IAS19 net pension position improved to a £40m surplus as at the year-end, from £nil at 31 December 2021, with the impact of pension deficit contributions during the year being partially offset by net actuarial losses.

Further details on post-retirement benefits are included in note 14.

**Balance sheet**

Net assets decreased to £1,280m (2021: £2,750m). This largely reflects the impact of the statutory loss in the year, in particular the net re-measurements in relation to energy supply contracts, the impact of the share repurchase programme, IAS19 pension losses from our equity accounted Nuclear investment and the minority dividend payment.

## 2022 acquisitions, disposals and disposal groups classified as held for sale

On 8 December 2021, Centrica announced that the Spirit Energy Group, of which the Group owns 69%, had agreed to dispose of its Norwegian oil and gas exploration and production business and its interests in the Statfjord field for headline consideration of $1,076m (approximately £800m) on a debt-free cash-free basis, plus a deferred commodity price-linked contingent payment. The commercial effective date of the transaction was 1 January 2021, with the transaction approved by Centrica shareholders at a General Meeting on 13 January 2022 and completed on 31 May 2022.

After adjustments for the net post-tax cash flows generated by the sale business and interests after the commercial effective date, less any remaining tax payable on these cash flows, net consideration was £69m, including a deferred commodity price-linked receivable and a tax indemnity provided to Sval Energi. Spirit Energy has distributed the net cash flow generated since 1 January 2021 and the net consideration to Centrica and its joint venture partners in proportion to their ownership, with £233m distributed to Centrica's non-controlling interest in June 2022 and a further £40m distributed in the second half of 2022.

Further details on assets purchased, acquisitions and disposals are included in notes 5(e) and 15.

## Events after balance sheet date

Details of events after the balance sheet date are described in note 18.

## Risks and capital management

The nature of the Group’s principal risks and uncertainties are broadly unchanged from those set out in its 2021 Annual Report. However, the Group's top three Principal Risks are now Credit & Liquidity Risk, Market Risk (including the outage risk of financial loss due to impact of lost asset production) and Weather Risk, reflecting the potential impacts of gas and electricity prices reaching record levels during 2022 together with extreme volatility.

The Group has actively responded to those risks heightened by global wholesale energy prices. Centrica’s approach to risk management includes agile hedging policies and effective demand forecasting processes. The extent to which the Group may continue to be impacted by the consequences of the high level of commodity prices will, in part, depend on further government and regulatory policy, including setting of future levels of default tariff caps, levies on profits and any extension to customer support schemes.

Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4. Details of the Group’s capital management processes are provided under sources of finance in note 11.

## Accounting policies

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

# Appendix: Upstream performance metrics

## Nuclear

| Year ended 31 December | 2022 | 2021 | Change |
|---|---|---|---|
| Nuclear power generated (GWh) | **8,719** | 8,342 | 5% |
| Nuclear achieved power price (£/MWh) | **140.0** | 46.6 | 200% |

## Spirit Energy

| Year ended 31 December | 2022 | 2021 | Change |
|---|---|---|---|
| Gas production volumes (mmth) | | | |
| *Retained* | **971** | 939 | 3% |
| *Disposed* | **178** | 508 | (65%) |
| Total gas production volumes (mmth) | **1,149** | 1,447 | (21%) |
| Liquids production volumes (mmboe) | | | |
| *Retained* | **1.2** | 2.1 | (43%) |
| *Disposed* | **3.5** | 11.1 | (68%) |
| Total liquids production volumes (mmboe) | **4.7** | 13.1 | (64%) |
| Total production volumes (mmboe) | | | |
| *Retained* | **17.5** | 17.9 | (2%) |
| *Disposed* | **6.3** | 18.9 | (67%) |
| Total production volumes (mmboe) | **23.8** | 36.8 | (35%) |
| Average achieved gas sales prices (p/therm) | | | |
| *Retained* | **94** | 54 | 74% |
| *Disposed* | **191** | 101 | 89% |
| Total Average achieved gas sales prices (p/therm) | **109** | 70 | 56% |
| Average achieved liquid sales prices (£/boe) | | | |
| *Retained* | **43** | 41 | 5% |
| *Disposed* | **64** | 44 | 45% |
| Total average achieved liquid sales prices (£/boe) | **59** | 44 | 34% |
| Lifting and other cash production costs (£/boe) (i) | | | |
| *Retained* | **20.5** | 20.2 | 1% |
| *Disposed* | **16.7** | 11.7 | 43% |
| Total average lifting and other cash production costs (£/boe) (i) | **19.5** | 15.8 | 23% |
| Gas and liquids realisations (£m) (ii) | | | |
| *Retained* | **988** | 595 | 66% |
| *Disposed* | **549** | 1,008 | (46%) |
| Total Gas and liquids realisations (£m) (ii) | **1,537** | 1,603 | (4%) |
| Unit DDA rate (£/boe) | | | |
| *Retained* | **20.2** | 12.6 | 60% |
| *Disposed* | **—** | 11.8 | nm |
| Average Unit DDA rate (£/boe) | **14.9** | 12.2 | 22% |

(i) Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.

(ii) Realisations are total revenues from sales of gas and liquids including hedging and net of Spirit NTS costs.

# Statement of Directors' Responsibilities

Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group Financial Statements, International Accounting Standard 1 required the Directors to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

Each of the Directors confirms that, to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with the United Kingdom adopted International Accounting Standards, with International Financial Reporting Standards as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Strategic Report contained in the Annual Report and Accounts, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board on 15 February 2023

| **Chris O'Shea** | **Kate Ringrose** |
| --- | --- |
| **Group Chief Executive** | **Group Chief Financial Officer** |

# Group Income Statement

| Year ended 31 December | Notes | 2022 Business performance £m | 2022 Exceptional items and certain re-measurements £m | 2022 Results for the year £m | 2021 Business performance £m | 2021 Exceptional items and certain re-measurements £m | 2021 Results for the year £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Group revenue** | 5,6 | 33,637 | (9,896) | 23,741 | 18,300 | (3,556) | 14,744 |
| Cost of sales [(i)] | 6 | (28,198) | 14,986 | (13,212) | (15,430) | 2,749 | (12,681) |
| Re-measurement and settlement of derivative energy contracts | 6 | — | (8,484) | (8,484) | — | (434) | (434) |
| **Gross profit** | 5,6 | 5,439 | (3,394) | 2,045 | 2,870 | (1,241) | 1,629 |
| Operating costs before exceptional items and credit losses on financial assets | | (1,872) | — | (1,872) | (1,703) | — | (1,703) |
| Credit losses on financial assets | 16 | (351) | — | (351) | (116) | — | (116) |
| Exceptional items – net impairment reversals | 6 | — | 207 | 207 | — | 1,218 | 1,218 |
| Exceptional items - net loss on significant disposals | 6 | — | (362) | (362) | — | — | — |
| Exceptional items – net restructuring cost reversals | 6 | — | — | — | — | 29 | 29 |
| Operating costs | | (2,223) | (155) | (2,378) | (1,819) | 1,247 | (572) |
| Share of profits/(losses) of joint ventures and associates, net of interest and taxation | 12 | 92 | 1 | 93 | (103) | — | (103) |
| **Group operating profit/(loss)** | 5 | 3,308 | (3,548) | (240) | 948 | 6 | 954 |
| Net finance cost | 7 | (143) | — | (143) | (187) | — | (187) |
| **Profit/(loss) from continuing operations before taxation** | | 3,165 | (3,548) | (383) | 761 | 6 | 767 |
| Taxation on profit/(loss) from continuing operations | 6,8 | (1,046) | 793 | (253) | (454) | 236 | (218) |
| **Profit/(loss) from continuing operations after taxation** | | 2,119 | (2,755) | (636) | 307 | 242 | 549 |
| **Discontinued operations** [(ii)] | 6 | — | — | — | — | 624 | 624 |
| **Profit/(loss) for the year** | | 2,119 | (2,755) | (636) | 307 | 866 | 1,173 |
| Attributable to: | | | | | | | |
| Owners of the parent | | 2,050 | (2,832) | (782) | 237 | 973 | 1,210 |
| Non-controlling interests | | 69 | 77 | 146 | 70 | (107) | (37) |

| **Earnings per ordinary share** | | 2022 Pence | 2021 Pence |
|---|---|---|---|
| **From continuing and discontinued operations** | | | |
| Basic | 10 | (13.3) | 20.7 |
| Diluted | 10 | (13.3) | 20.5 |
| **From continuing operations** | | | |
| Basic | 10 | (13.3) | 10.0 |
| Diluted | 10 | (13.3) | 9.9 |
| **Interim dividend paid per ordinary share** | 9 | 1.0 | — |
| **Final dividend proposed per ordinary share** | 9 | 2.0 | — |

(i) Cost of sales includes a £1,766 million credit (2021: £2,530 million charge) relating to a reversal of the onerous energy supply contract provision within the certain re-measurements column. See note 6.
(ii) Profit from the disposal of Direct Energy reflected in discontinued operations is entirely attributable to equity holders of the parent. See note 6.

The notes on pages 33 to 84 form part of these Financial Statements.

# Group Statement of Comprehensive Income

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(636)** | 1,173 |
| **Other comprehensive income** | | | |
| **Items that will be or have been reclassified to the Group Income Statement:** | | | |
| Impact of cash flow hedging (net of taxation) | | **(20)** | (6) |
| Exchange differences on translation of foreign operations [(i)] | | **(90)** | (49) |
| Exchange differences reclassified to Group Income Statement on disposal [(i)] | 15 | **272** | (20) |
| Net investment hedging gains reclassified to Group Income Statement (net of taxation) | | **—** | (40) |
| **Items that will not be reclassified to the Group Income Statement:** | | | |
| Net actuarial (losses)/gains on defined benefit pension schemes (net of taxation) | | **(124)** | 144 |
| Gains on revaluation of equity instruments measured at fair value through other comprehensive income (net of taxation) | | **—** | 3 |
| Share of other comprehensive (loss)/income of associates, net of taxation | 12 | **(293)** | 152 |
| **Other comprehensive (loss)/income, net of taxation** | | **(255)** | 184 |
| **Total comprehensive (loss)/income for the year** | | **(891)** | 1,357 |
| Attributable to: | | | |
| Owners of the parent | | **(1,042)** | 1,397 |
| Non-controlling interests | | **151** | (40) |
| Total comprehensive (loss)/income attributable to owners of the parent arises from: | | | |
| Continuing operations | | **(1,042)** | 833 |
| Discontinued operations | | **—** | 564 |
| | | **(1,042)** | 1,397 |

(i) Exchange differences on translation of foreign operations includes £95 million (2021: £46 million) of losses attributable to the equity holders of the parent, and £5 million of gains (2021: £3 million of losses) attributable to non-controlling interests. Exchange differences reclassified to Group Income Statement on disposal includes a £272million loss (2021: £20 million gain) attributable to the equity holders of the parent, and £nil (2021: £nil) attributable to non-controlling interests.

The notes on pages 33 to 84 form part of these Financial Statements.

# Group Statement of Changes in Equity

| | Share Capital £m | Share Premium £m | Retained Earnings £m | Other Equity £m | **Total £m** | Non-controlling Interests £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|
| 1 January 2021 | 361 | 2,347 | (836) | (915) | 957 | 425 | 1,382 |
| Profit/(loss) for the year | — | — | 1,210 | — | 1,210 | (37) | 1,173 |
| Other comprehensive income/(loss) | — | — | — | 187 | 187 | (3) | 184 |
| Total comprehensive income/(loss) | — | — | 1,210 | 187 | 1,397 | (40) | 1,357 |
| Employee share schemes and other share transactions | 2 | 30 | 3 | (24) | 11 | — | 11 |
| 31 December 2021 | 363 | 2,377 | 377 | (752) | 2,365 | 385 | 2,750 |
| (Loss)/profit for the year | — | — | (782) | — | **(782)** | 146 | **(636)** |
| Other comprehensive (loss)/income | — | — | — | (260) | **(260)** | 5 | **(255)** |
| Total comprehensive (loss)/income | — | — | (782) | (260) | **(1,042)** | 151 | **(891)** |
| Employee share schemes and other share transactions | 2 | 17 | (2) | (14) | **3** | — | **3** |
| Share buyback programme | — | — | — | (250) | **(250)** | — | **(250)** |
| Dividends paid to equity holders | — | — | (59) | — | **(59)** | — | **(59)** |
| Distributions to non-controlling interests (note 15) | — | — | — | — | **—** | (273) | **(273)** |
| **31 December 2022** | **365** | **2,394** | **(466)** | **(1,276)** | **1,017** | **263** | **1,280** |

The notes on pages 33 to 84 form part of these Financial Statements.

# Group Balance Sheet

| | Notes | 31 December 2022 £m | 31 December 2021 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,748** | 1,985 |
| Interests in joint ventures and associates | 12 | **1,580** | 1,628 |
| Other intangible assets | | **707** | 760 |
| Goodwill | | **409** | 401 |
| Deferred tax assets | | **1,709** | 823 |
| Trade and other receivables, and contract-related assets | 16 | **129** | 233 |
| Derivative financial instruments | 13 | **1,393** | 1,005 |
| Retirement benefit assets | 14 | **150** | 231 |
| Securities | 11 | **525** | 135 |
| | | **8,350** | 7,201 |
| **Current assets** | | | |
| Trade and other receivables, and contract-related assets | 16 | **8,450** | 5,881 |
| Inventories | | **1,269** | 644 |
| Derivative financial instruments | 13 | **6,034** | 6,545 |
| Current tax assets | | **93** | 83 |
| Cash and cash equivalents | 11 | **4,842** | 5,060 |
| | | **20,688** | 18,213 |
| Assets of disposal groups classified as held for sale | | **—** | 1,672 |
| | | **20,688** | 19,885 |
| **Total assets** | | **29,038** | 27,086 |
| **Current liabilities** | | | |
| Derivative financial instruments | 13 | **(8,841)** | (4,929) |
| Trade and other payables, and contract-related liabilities | | **(10,176)** | (7,513) |
| Current tax liabilities | | **(472)** | (333) |
| Provisions for other liabilities and charges | | **(1,213)** | (2,769) |
| Bank overdrafts, loans and other borrowings | 11 | **(1,009)** | (1,204) |
| | | **(21,711)** | (16,748) |
| Liabilities of disposal groups classified as held for sale | | **—** | (1,228) |
| | | **(21,711)** | (17,976) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(8)** | (36) |
| Derivative financial instruments | 13 | **(1,310)** | (1,080) |
| Trade and other payables, and contract-related liabilities | | **(165)** | (120) |
| Provisions for other liabilities and charges | | **(1,446)** | (1,454) |
| Retirement benefit obligations | 14 | **(110)** | (231) |
| Bank loans and other borrowings | 11 | **(3,008)** | (3,439) |
| | | **(6,047)** | (6,360) |
| **Total liabilities** | | **(27,758)** | (24,336) |
| **Net assets** | | **1,280** | 2,750 |
| Share capital | | **365** | 363 |
| Share premium | | **2,394** | 2,377 |
| Retained earnings | | **(466)** | 377 |
| Other equity | | **(1,276)** | (752) |
| **Total shareholders' equity** | | **1,017** | 2,365 |
| Non-controlling interests | | **263** | 385 |
| **Total shareholders' equity and non-controlling interests** | | **1,280** | 2,750 |

The Financial Statements on pages 28 to 84, of which the notes on pages 33 to 84 form part, were approved and authorised for issue by the Board of Directors on 15 February 2023 and were signed below on its behalf by:

**Chris O'Shea** — **Group Chief Executive**

**Kate Ringrose** — **Group Chief Financial Officer**

Centrica plc Registered No: 03033654

# Group Cash Flow Statement

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Group operating (loss)/profit including share of results of joint ventures and associates | | **(240)** | 954 |
| (Deduct)/add back share of (profits)/losses of joint ventures and associates, net of interest and taxation | 12 | **(93)** | 103 |
| Group operating (loss)/profit before share of results of joint ventures and associates | | **(333)** | 1,057 |
| Add back/(deduct): | | | |
| Depreciation and amortisation | 5 | **669** | 768 |
| Write-downs, impairments and write-backs | 5,6 | **(99)** | (1,183) |
| Loss on disposals | 15 | **343** | 28 |
| (Decrease)/increase in provisions | | **(1,903)** | 2,434 |
| Cash contributions to defined benefit schemes in excess of service cost income statement charge | | **(184)** | (388) |
| Employee share scheme costs | | **10** | 12 |
| Unrealised losses/(gains) arising from re-measurement of energy contracts | | **4,095** | (1,159) |
| Exceptional charges reflected directly in operating profit | | **—** | 12 |
| Operating cash flows before movements in working capital relating to business performance and payments relating to taxes and exceptional charges | | **2,598** | 1,581 |
| Increase in inventories | | **(593)** | (361) |
| Increase in trade and other receivables and contract-related assets relating to business performance | | **(2,302)** | (3,358) |
| Increase in trade and other payables and contract-related liabilities relating to business performance | | **2,239** | 3,965 |
| Operating cash flows before payments relating to taxes and exceptional charges | | **1,942** | 1,827 |
| Taxes paid | | **(574)** | (140) |
| Operating interest paid | 7 | **(30)** | — |
| Payments relating to exceptional charges in operating costs | 6 | **(24)** | (76) |
| **Net cash flow from operating activities** | | **1,314** | 1,611 |
| Continuing operations: | | | |
| Purchase of businesses, net of cash acquired | 15 | **12** | (14) |
| Sale of businesses | 15 | **92** | 70 |
| Purchase of property, plant and equipment and intangible assets | 5 | **(371)** | (420) |
| Sale of property, plant and equipment and intangible assets | | **11** | 36 |
| (Investments in)/disposal of joint ventures and associates | 12 | **(18)** | 2 |
| Dividends received from joint ventures and associates | 12 | **60** | 2 |
| Interest received | | **46** | 2 |
| Settlement of securities | 11 | **150** | — |
| Purchase of securities | 11 | **(548)** | (3) |
| Net cash flow from continuing investing activities | | **(566)** | (325) |
| Net cash flow from discontinued investing activities | | **—** | 2,588 |
| **Net cash flow from investing activities** | | **(566)** | 2,263 |
| Payments for own shares | | **(5)** | — |
| Share buyback programme | | **(43)** | — |
| Cash inflow from short-term borrowings | 11 | **1,220** | — |
| Proceeds from sale of forfeited share capital | | **—** | 1 |
| Distributions to non-controlling interests | 15 | **(273)** | — |
| Financing interest paid | 11 | **(172)** | (233) |
| Repayment of borrowings and capital element of leases | 11 | **(1,585)** | (706) |
| Equity dividends paid | 9 | **(59)** | — |
| **Net cash flow from financing activities** | | **(917)** | (938) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(169)** | 2,936 |
| Cash and cash equivalents including overdrafts, and cash classified as held for sale at 1 January | | **4,328** | 1,393 |
| Effect of foreign exchange rate changes | 11 | **83** | (1) |
| **Cash and cash equivalents including overdrafts at 31 December** | 11 | **4,242** | 4,328 |
| Included in the following line of the Group Balance Sheet: | | | |
| Cash and cash equivalents | 11 | **4,842** | 5,060 |
| Overdrafts included within current bank overdrafts, loans and other borrowings | 11 | **(600)** | (750) |
| Assets of disposal groups classified as held for sale | | **—** | 18 |

The notes on pages 33 to 84 form part of these Financial Statements.

# Notes to the Financial Statements

## 1. General information, basis of preparation and summary of significant new accounting policies and reporting changes

**This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2022 or later years, and if and how these are expected to impact the financial position and performance of the Group.**

### (a) General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2022 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2022.

The preliminary results for the year ended 31 December 2022 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2022 or 31 December 2021. The financial information for the year ended 31 December 2021 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2022 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

### (b) Basis of preparation

The accounting policies applied in these Financial Statements for the year ended 31 December 2022 are consistent with those of the Annual Financial Statements for the year ended 31 December 2021, as described in those financial statements, with the exception of standards, amendments and interpretations effective in 2022 and other presentational changes.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, which reflects a period of twelve months from the date of approval of the accounts, with modelled analysis extending to 31 December 2024. The scenarios considered as part of the going concern assessment are consistent with those used in the longer-term viability statement. In particular, cash forecasts for the Group have been stress-tested for different scenarios including reasonably possible increases/decreases in commodity prices and the risk scenarios described in the viability statement, assessing reasonably possible combinations of risks, the largest of which is the increased margin outflows in our trading and upstream businesses. Risks considered also include the impact of significant adverse weather events, increased bad debt charges due to the cost of living crisis, the risk of financial loss due to counterparty default and production falls in the Group's upstream business. Due to the elevated and more volatile commodity prices in 2022, the Group has established enhanced processes in the trading business and in respect of Upstream to plan for and manage possible increases in margin cash requirements. The largest margin outflow modelled in the going concern scenarios is significantly in excess of actual margin requirements experienced in 2021 and 2022. Following this work, the level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that there are no material uncertainties relating to going concern. As a result, the Group continues to adopt the going concern basis of accounting in preparing the financial statements. Further information on the Group's strong liquidity position, including its indebtedness and available committed facilities are provided in note 11.

### (c) New accounting policies, standards, amendments and interpretations effective or adopted in 2022

From 1 January 2022, the following standards and amendments are effective in the Group's consolidated Financial Statements:

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', costs of fulfilling a contract;
- Amendments to IAS 16: 'Property, Plant and Equipment', sale proceeds before intended use;
- Amendments to IFRS 3 'Business Combinations', reference to the Conceptual Framework; and
- Annual improvements to IFRS 2018-2020.

These changes and other amendments effective during the year did not materially impact the consolidated Financial Statements.

**Customer Support Schemes**

During the year the UK Government announced three new support schemes to provide support for customers during the cost-of-living crisis.

The Energy Bill Support Scheme (EBSS) requires energy suppliers to provide electricity customers with a £400 benefit spread over the six-month winter period. The Group is providing this support to customers as either a cash benefit, or a credit to their energy account depending on their payment type. Energy suppliers are receiving funding monthly in advance from the Government. Cash is restricted until the payment, or account credit, is applied to customers' accounts. Since the beginning of the EBSS scheme on 1 October 2022, the Group has received funding of £1,565 million from the Government. £440 million of this balance primarily relates to funding received in December and is disclosed as restricted cash. A corresponding liability is recognised on the Group's balance sheet until the EBSS support is applied to customer accounts in January 2023. See note 11 for further details.

The Energy Price Guarantee (EPG) scheme sets a government supported unit price for both gas and electricity for domestic customers at a level below the quarterly-calculated price cap. The EPG tariff rates are expected to reduce the average annual domestic household bill for the period from 1 October 2022 to 31 March 2023 to approximately £2,500 per annum. EPG rates will increase to approximately £3,000 per annum from 1 April 2023 and are expected to remain in place until 31 March 2024. The Government is compensating energy suppliers for the difference between the previously expected price cap and the reduced EPG rates with payments made in arrears. Since the start of the EPG scheme in October, the Group has recognised £706 million of revenue relating to the supply of electricity and £833 million relating to the supply of gas from the Government, of which a total of £153 million is recognised as a trade receivable on the

balance sheet at the year-end date. The Group estimates and recognises revenue in accordance with existing Group policy and then applies the EPG discounts. Charges are recoverable from customers based on the net figure, with the EPG discount recoverable from the Government.

The Energy Bill Relief Scheme (EBRS) scheme has been introduced for non-domestic customers, providing government supported unit rates at £211/MWh for electricity and £75/MWh for gas. EBRS support is calculated on the differential between the EBRS rate, and the wholesale price of electricity or gas at either the inception of a customer's fixed price contract, or the date of delivery for variable, deemed and all other contracts, subject to a maximum discount. Since the EBRS scheme became effective from October 2022, the Group has recognised £219 million of revenue from the Government of which £131 million is recognised as a trade receivable on the balance sheet at the year-end date. The EBRS scheme is expected to end on 31 March 2023. Similar to the EPG, the Group recognises revenue based on existing estimation and measurement processes with the EBRS discount applied and subsequently recovered from the Government.

The Group has determined that it is appropriate to apply the requirements of IFRS 15 'Revenue from Contracts with Customers' where the Government is effectively settling a portion of customers' energy bills. This is on the basis that the Group remains entitled to receive consideration for the supply of electricity and gas based on either the existing price cap structure or customers' fixed or variable priced contracts and the transaction price is unchanged. The trade receivable arising from the supply of energy is settled both by the customer, and the Government. The Group observes that the alternative application of IAS 20 'Government Grants' would have resulted in a similar accounting outcome.

**Pension Scheme Loan Arrangement**

As a result of the turbulence in longer-dated UK Government debt markets during the second half of the year, the Group provided a loan facility to the Group's three defined benefit pension schemes. The facility amounted to £550 million, of which £400 million remained outstanding at the reporting date. Interest on the loan is calculated based on the Bank of England base rate plus 1%; interest accrues over the two-year term of the loan and is paid by the pension schemes at maturity. See note 14 for further details.

The Group has recognised the loan as a financial asset under IFRS 9 'Financial instruments' measured at amortised cost and classified the receivable within securities on the Group's balance sheet. Correspondingly, the loan liability has been deducted from plan assets on the basis that the loan does not relate to employee benefits (scheme liabilities) in accordance with IAS 19.

### (d) Standards and amendments that are issued but not yet applied by the Group

At the date of authorisation of these consolidated Financial Statements, the Group has not applied the following new and revised standards and amendments that have been issued but are not yet effective:

The following standard has been issued, endorsed and will be applied to the Group in future periods:

- IFRS 17 'Insurance Contracts', effective from 1 January 2023.

The following standards and amendments have been issued, endorsed and will be applied to the Group in future periods, subject to UK endorsement:

- Amendments to IAS 1 'Presentation of Financial Statements':
  - Disclosure of accounting policies and materiality judgements, effective 1 January 2023;
  - Classification of liabilities as current or non-current, effective 1 January 2024; and
  - Non-current liabilities with covenants, effective 1 January 2024.
- Amendments to IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors'; effective from 1 January 2023;
- Amendments to IAS 12 'Income Taxes'; effective from 1 January 2023; and
- Amendments to IFRS 16 'Leases'; effective from 1 January 2024.

IFRS 17 will be effective from 1 January 2023. The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4 'Insurance contracts'. The Group has completed its assessment of IFRS 17 and expects these contracts to fall within the scope of IFRS 17 where the Group reflects an assessment of the risk associated with an individual customer in setting the price of the contract. The Group will apply the simplified 'Premium Allocation Approach' to its contracts on the basis that the coverage period of the Group's insurance contracts is not greater than one year. The Group does not expect a material impact from the application of this standard.

Management does not expect other issued but not effective amendments or standards, or standards not discussed above to have a material impact on the consolidated Financial Statements.

## 2. Centrica specific accounting measures

**This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.**

### (a) Use of adjusted performance measures

The Directors believe that reporting adjusted measures (revenue, margin, profit, earnings per share and cash flow) provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes, are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

Management uses adjusted revenue, adjusted gross margin and adjusted operating profit to evaluate segment performance. They are defined as revenue/gross margin/operating profit before:

- exceptional items; and
- certain re-measurements.

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. See section (b) of this note for further details. Similarly, for Segmental adjusted operating profit, the impact of the Group's profit share is excluded because management consider it unrelated to Segmental business performance.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation; and
- certain re-measurements net of taxation.

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 10.

Free cash flow is used by management to assess the cash generating performance of each segment. Segmental free cash flow is defined as net cash flow from operating and investing activities before:

- deficit reduction payments made to the UK defined benefit pension schemes;
- movements in variation margin and collateral;
- interest received;
- sale, settlement and purchase of securities; and
- taxes paid and refunded.

Segmental free cash flow as assessed by management excludes cash flows relating to tax. This is because the effect of Group relief and similar reliefs could distort the measure of segment performance. As a Group-wide measure, free cash flow includes taxes paid and refunded.

Free cash flow gives a measure of the cash generation performance of the business after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in variation margin and collateral, which are predominantly triggered by wider market factors and, in the case of collateral and margin movements, represent timing differences, free cash flow gives a measure of the underlying performance of the Group.

Interest received and cash flows from the sale, settlement and purchase of securities are excluded from free cash flow as these items are included in the Group's adjusted net cash/debt measure and are therefore viewed by the Directors as related to the manner in which the Group finances its operations.

Adjusted net cash/(debt) is used by management to assess the underlying indebtedness of the business. Adjusted net cash/(debt) is defined as cash and cash equivalents, net of bank overdrafts, borrowings, leases, interest accruals and related derivatives. This is adjusted for:

- securities; and
- sub-lease assets.

## 2. Centrica specific accounting measures

### (b) Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide users with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets and contracts (and similar capacity or off-take arrangements), as well as to meet the future needs of its customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement, they are prohibited from being designated as 'own use' and so IFRS 9 'Financial Instruments' requires them to be individually fair valued.

Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Similarly, where our downstream customer supply contracts have become onerous as a result of significant market price movements (and the fact any associated commodity hedges have separately been recognised at fair value under IFRS 9 and therefore the onerous supply contract assessment must reflect the reversal of those gains in subsequent periods), movements in the required provision are also reflected as a certain re-measurement in the 'Cost of sales' line item and separately disclosed in note 6.

Movements in this provision do not reflect the underlying performance of the business because they are economically related to both the hedges and forecast future profitability of the supply contracts. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The effects of these certain re-measurements are presented within either revenue or cost of sales when recognised in business performance depending on the nature of the contract. They are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in revenue in the business performance column of the Group Income Statement.

The Group's result for the year presents both realised and unrealised fair value movements on all derivative energy contracts within the 'Re-measurement and settlement of derivative energy contracts' line item. The Group's result for the year presents the unrealised onerous supply contract provision movements within the 'Cost of sales' line item.

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, debt repurchase costs, certain pension past service credits/costs, asset impairments/write-backs, the tax effects of these items and the effect of changes in UK upstream tax rates.

The Group distinguishes between business performance asset impairments/write-backs and exceptional impairments/write-backs on the basis of the underlying driver of the impairment, as well as the magnitude of the impairment. Drivers that are deemed to be outside of the control of the Group (e.g. commodity price changes) give rise to exceptional impairments. Additionally, impairment charges that are of a one-off nature (e.g. reserve downgrades or one-time change in intended use of an asset) and significant enough value to distort the underlying results of the business are considered to be exceptional. Other impairments that would be expected in the normal course of business, such as unsuccessful exploration activity (dry holes), are reflected in business performance.

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

**This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.**

### (a) Critical judgements in applying the Group's accounting policies

In addition to the judgements described above, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the consolidated Group Financial Statements.

**Spirit Energy consolidation**

During 2017, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing exploration and production business to form the Spirit Energy business (SE). The Group, through its Board majority, can control decisions that represent Board Reserved Matters and the Directors consider that these rights provide control over the relevant activities that most significantly influence the variable returns of the SE business. The Group has concluded that it controls SE and consequently SE is fully consolidated with a non- controlling interest of 31%.

**Metering contracts**

As part of the ongoing smart meter roll-out, the Group periodically renews meter rental arrangements with third parties. The last renegotiation took place in 2021. The Group assessed that these were not leases under IAS 17 and IFRIC 4 because at inception of the contract there were no specified assets, the Group did not have the right to physically or operationally control the smart meters and other parties took more than an insignificant amount of the output from the assets. This assessment was grandfathered on adoption of IFRS 16.

A reassessment of the contracts was performed in accordance with IFRS 16, following renegotiations of the meter rental arrangements. On the basis that the asset has a predetermined use and the Group neither has the right to operate the asset, nor was involved in its design, the conclusion that these arrangements are not leases continues to be appropriate.

**LNG contracts**

The Group is active in the liquified natural gas (LNG) market, both procuring long-term LNG supply arrangements and transacting in shorter-term LNG cargoes. As part of its operations in the market, the Group optimises its contractual positions in order to meet customer demand for physical commodity. In response to the continuing development of the global LNG market which, consistent with prior years, is not considered to be active, the Group has reviewed its portfolio of LNG transactions and contracts. It has judged that its activities are carried out for the purpose of receipt or delivery of physical commodity in accordance with its expected purchase and sale requirements. As a result, the Group's contracts to buy and sell LNG are outside the scope of IFRS 9 and are accounted for on an accruals basis.

**Assets held for sale and discontinued operations**

On 8 December 2021 the Group announced that it had agreed to sell Spirit Energy's entire Norwegian portfolio plus the Statfjord field to Sval Energi and Equinor. The transaction completed in the first half of 2022. See note 15.

The disposal group did not represent a separate major line of business or geographical operations, because the Upstream segment retains other European producing fields, and hence the Group concluded that the disposal group did not constitute a discontinued operation.

**Supplier of Last Resort (SoLR)**

During 2021, the Group was appointed as the Supplier of Last Resort (SoLR) to eight suppliers who ceased trading during the year and one further appointment was made in January 2022. Under Ofgem's licence conditions, the Group was entitled to make a Last Resort Supplier Payment (LRSP) claim for the shortfall between costs reasonably incurred in supplying gas and electricity to premises under the Last Resort Supply Direction, and the charges recovered from customers.

The Group submitted an initial claim in 2021, covering a six-month period from the date of appointment, and received confirmation of Ofgem's acceptance in December 2021. The claim primarily covered estimated incremental commodity costs, incurred as a result of procuring gas and electricity to supply affected customers. The initial claim is currently being settled in 12 monthly instalments ending in April 2023, a total of £258 million has been received during 2022. The Group submitted a second claim to Ofgem in Autumn 2022, recognising both actual commodity costs incurred, and additional costs which were not included in the initial claim. This includes the recovery of customer credit balances, where the Group had not waived the right to do so. The second claim was accepted by Ofgem in December 2022 and will be settled between April 2023 and April 2024. The value recognised for the SoLR receivable at 31 December 2022 is £275 million (31 December 2021: £234 million). In 2022, the Group incurred a further £241 million of incremental costs (31 December 2021: £185 million) and an additional £58 million of cost relating to customer credit balances (31 December 2021: £49 million).

The Group has concluded that the LRSP process represents an Ofgem support mechanism, enabling energy suppliers to provide stability to the customers of failed suppliers. The Group determines that the LRSP is within the scope of IAS 20 'Government Grants' and amounts receivable under the mechanism are recognised as a credit within cost of sales and operating costs, as the related expenses are incurred.

**Share Buyback**

On 10th November 2022, the Group announced an intention to undertake a share buyback of £250 million, expected to complete by 31 May 2023. The Group entered into contracts with third parties to undertake this repurchase programme and, as at 31 December 2022, £43 million of shares had been purchased. The Group judges that the terms and conditions of the contracts meant that, at the 31 December 2022, it was unable to cancel the remaining obligation. Accordingly, the Group has recorded a financial liability of £207 million for this remaining obligation, in accordance with IFRS 9: Financial Instruments.

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

### (b) Key sources of estimation uncertainty

The sections below detail the assumptions the Group makes about the future and other major sources of estimation uncertainty when measuring its assets and liabilities at the reporting date. The information given relates to the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to those assets and liabilities in the next financial year.

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

**British Gas Energy and Centrica Business Solutions Onerous Supply Contracts**

The Group operates and manages a hedging strategy to ensure that the future costs of supplying customers of the British Gas Energy and Centrica Business Solutions portfolios are appropriately managed.

Hedges are measured at fair value under IFRS 9 and are recognised as certain re-measurements in the Group's income statement until the point at which the related costs to purchase electricity and gas are incurred. Fair value movements on energy purchase contracts entered to meet the future needs of customers are economically related to customer demand; the supply contracts for which are measured on an accrual basis.

Gains and losses arising from hedges have been recognised in the income statement (within certain re-measurements) in accordance with the requirements of IFRS 9. Because of this hedge value recognition, the assessment of whether the supply contracts are onerous must include the contracted energy purchase costs and those mark-to-market reversals. In 2021, the Group determined that at the reporting date, the future costs to fulfil customer contracts, including those mark-to-market reversals, exceeded the charges recoverable from customers because the associated hedging gains had already been recognised in the income statement. As a result the Group recognised an onerous supply contract provision.

Throughout 2022, commodity prices have been elevated and volatile and the reversal of gains and losses arising from hedges has had a significant impact on the Group's onerous contract supply provision. Commodity prices have declined at year end and the overall provision has similarly reduced. If commodity prices increase, a further provision may be required in the future. Commodity price movements typically affect the Group's residential portfolio more immediately than non-domestic customers, because the residential hedging strategy reflects the more variable nature of the portfolio's pricing structure compared to Centrica Business Solutions customers who are typically on longer-term fixed contracts. The decrease in the onerous supply contract provision is partially offset by the corresponding losses on the related derivatives recognised in certain re-measurements. Further disclosures relating to movements in certain re-measurements are provided in note 6.

Due to the sharp decline in commodity prices at the end of 2022, fair value movements on energy purchase contracts entered to meet the future needs of British Gas Energy residential customers resulted in losses rather than gains being recognised as certain re-measurements in the Group's income statement. As a result, the Group determined that at the reporting date, the future costs to fulfil British Gas residential customer contracts fell below charges recoverable from customers and the onerous supply contract provision previously recognised in relation to the fulfilment of British Gas Energy customer contracts has been reversed in full.

Fair value movements on energy purchase contracts in relation to the Group's non-domestic customers have similarly resulted in the recognition of losses as a result of declining wholesale prices during December 2022. The hedging strategy for this portfolio differs from the residential portfolio, and the Group has determined that at the reporting date, the reversal of the cumulative fair value movements on this portfolio still results in future costs which exceed charges recoverable from customers. As a result, the Group continues to recognise an onerous supply contract provision for the Group's non-domestic customers.

The total onerous contract supply provision recognised by the Group is £999 million (31 December 2021: £2,530 million). This has been calculated by estimating the expected margins from energy supply customers, and deducting from this margin the expected costs to fulfil those arrangements, including energy purchase costs reflecting the mark-to-market gains, and directly attributable overhead costs.

In the prior year, key sources of estimation uncertainty related to the expected future tenure of the Group's customer portfolio, and the estimated gross margin attributable to them. Estimations were based on historic experience, adjusted to reflect non-recurring costs. The British Gas Energy residential element of the provision was particularly sensitive to movements in tenure and gross margin assumptions.

At 31 December 2022, the onerous supply contract provision only relates to non-domestic customers and is much less sensitive to the assumptions made.

**Credit provisions for trade and other receivables**

The economic effects of the significant increase in wholesale gas and electricity costs, and resultant increase in consumer tariffs alongside wider inflationary and cost-of-living pressures may impact the ability of the Group's customers to pay amounts due. Gas and electricity customers are benefitting from customer support schemes implemented by the government, but prices are still significantly higher than in previous years and the level of estimation uncertainty in determining the credit provisions required for customers is heightened.

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provision, along with associated sensitivities, is set out in note 16. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

**Impairment and impairment reversals of long-lived assets**

The Group makes judgements in considering whether the carrying amounts of its long-lived assets (principally Upstream gas assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill) or cash-generating units (CGUs) are recoverable and estimates their recoverable amounts.

2021 and 2022 have seen significant year-on-year increases in forward commodity prices, both in terms of observable market prices and forecast forward prices. As a result impairment reversals were booked in 2021 related to our retained assets. During 2022, the announcement of the Energy Profits Levy and Electricity Generator Levy has also impacted the recoverable amounts of our assets.

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

***Upstream gas assets***
Forward prices for gas are a key input in the determination of the recoverable amount of the Group's gas assets. 2022 has seen continued increases in the prices for this commodity, both in terms of observable market prices and forecast forward prices. This increase, primarily due to higher commodity prices, has been partially offset by the implementation of the Energy Profits Levy. At 31 December 2022, impairment headroom remains for all significant fields. The recoverable amounts of the Group's gas assets are capped at depreciated historic cost; accordingly no material impairment reversals have been recorded during the period. As at 31 December 2022, this remains a key source of estimation uncertainty due to potential future price decreases. Sensitivities are provided in note 6.

Further details of the assumptions used in determining the recoverable amounts and sensitivities to the assumptions are provided in note 6.

***Nuclear investment***
The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting pre-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of outages and the likely operational lives of the stations. During the period, the recoverable amount has improved as a result of increases in commodity prices more than offsetting the effect of the announcement of the Electricity Generator Levy. This, coupled with the impact of the actuarial loss from the associate's pension scheme, has resulted in an impairment reversal of £195 million.

The key source of estimation uncertain is commodity price forecasts, other input assumptions include production levels and station lives. Further details of these uncertainties, together with the methodology, assumptions and impairment reversal booked during the year are provided in note 6, together with related sensitivities.

**Revenue recognition – unread gas and electricity meters**
Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year-end (known as unread revenue). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits that will flow to the Group, including bill cancellation and re-bill rates. Estimated revenue is restricted to the amount the Group expects to be entitled to in exchange for energy supplied. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised. The primary source of estimation uncertainty relating to unread revenue arises in the respect of gas and electricity sales to UK downstream customers in British Gas Energy and Centrica Business Solutions, including where changes in customer behaviour in response to elevated prices, affects estimated consumption. At 31 December 2022 unread revenue arising from these customers amounted to £2,893 million (2021: £1,740 million). A change in these assumptions of 2% would impact revenue and profit by £58 million.

**Decommissioning costs**
The estimated cost of decommissioning at the end of the producing lives of gas fields is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be predominantly incurred by 2030.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. The real discount rate used to discount the decommissioning liabilities at 31 December 2022 is 1% (2021: 0%). There are a number of variable inputs into the calculation of discount rates including risk-free interest rates and debt and equity risk premium. As a result of changes in yields on government gilts appropriate to the forecast profile of the decommissioning expenditure, it has been deemed appropriate to increase the decommissioning rate. A 1% change in this discount rate would change the decommissioning liability by approximately £75 million.

**Gas and liquids reserves**
The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids property, plant and equipment (PP&E) as well as being a significant estimate affecting decommissioning and impairment calculations.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write- down (impairment) of the asset's book value. A change in reserves estimates could also change the timing of decommissioning activity, which could change the carrying value of the Group's provisions. The complex interaction of field-specific factors means that it is not possible to give a meaningful sensitivity of the Group's financial position or performance to gas and liquids reserves estimates. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition and details of the Group's 2P reserves are given on page 85. Details of impairments of exploration and production fields and goodwill, along with associated sensitivities, are given in note 6.

**Determination of fair values – energy derivatives**
The fair values of energy derivatives classified as Level 3 in accordance with IFRS 13 'Fair value measurement' are determined to be a key source of estimation uncertainty as they are not actively traded and their values are estimated by reference in part to published price quotations in active markets and in part by using complex valuation techniques. The key source of estimation uncertainty is future commodity prices and their inclusion in the reliable estimation of the unobservable components of the Group's Level 3 derivatives in an elevated and volatile commodity price environment.

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

**Climate change**

In preparing the financial statements, the Directors have considered the impact of climate change in the context of the risks and opportunities. There has been no material impact identified on the financial reporting judgements and estimates. The Directors specifically considered the impact of climate change in the following areas:

- cash flow forecasts used in the impairment assessment of non-current assets, including goodwill;
- carrying value and useful economic lives of property, plant and equipment;
- recoverability of deferred tax assets; and
- going concern and viability of the Group over the next three years.

Whilst there is no short-term impact expected from climate change, the Directors are aware of the risks and regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Further detail is provided in the Climate change note below.

### (c) Climate change

The Group's assessment of how climate-related issues might affect the business has been integrated into its annual strategic and financial planning process. At the same time, the Group reviews the potential impact of the material risks and opportunities and its Climate Transition Plan on both the current balance sheet position and its accounting policies (including the useful economic lives of its assets).

**Summary of our most material risks & opportunities**

| TCFD category | Climate related trend | Potential impact |
|---|---|---|
| Transition: Policy, Markets and Technology | Transition away from fossil fuelled heating | Risk: Reduced GM from the sale and servicing of natural gas residential boilers and commercial Combined Heat and Power (CHP) |
| Transition: Policy, Markets and Technology | Growth in low carbon heating market | Opportunity: Increased sales and servicing of electric and hydrogen fuelled heating systems |
| Transition: Policy, Markets and Technology | Transition away from natural gas | Risk: Reduced GM from the sale of natural gas and energy efficiency |
| Transition: Policy, Markets and Technology | Growth in low carbon heating market | Opportunity: Increased sales of electricity and green/low carbon hydrogen |
| Transition: Markets | Growth of EV transport market | Opportunity: Access to new and growing value pools related to EV charging installs, operation and maintenance (O&M), and energy supply |
| Transition: Energy Source | Growth in demand for renewable energy | Opportunity: Strong growth in the market for low carbon and transition assets driven by decarbonisation |
| Physical Chronic | Rising mean temperatures | Risk: Reduced sales of natural gas and electricity for heat |

IFRS dictates how each asset or liability should be accounted for (e.g. cost, fair value or other measurement criteria) and accordingly, there is a fundamental difference between the holistic forward-looking risk and opportunities business analysis, and the possible sensitivity of current accounting carrying values to these risks and opportunities, and the possible sensitivity of current accounting carrying values to these risks and opportunities.

For example, whilst the activity of supplying gas to customers or servicing/installing gas boilers is clearly subject to climate-related risks (and opportunities), the balance sheet does not reflect an overall value of those businesses (aside from an element of Goodwill). Instead, accounting balances related to these businesses generally manifest themselves in short-term working capital assets and liabilities associated with procuring and selling gas or servicing/installing boilers; with those balances generally settled within six months and so specifically less exposed to climate risks.

In a similar vein, Upstream assets are tested for impairment in accordance with relevant IFRS accounting standards. These generally require the recoverable amount of the asset to be calculated based on a best estimate of long-term forecast commodity prices, which the Group estimates based on current market prices and the consensus of reputable commodity pricing consultants forecasts. However, these estimates are not consistent with net zero scenarios from the consultants (as they do not factor in any prospective, yet to be announced legislative or market changes that would be required to meet temperature targets) and hence impairment reviews are not based on net zero scenario forward prices. The Group instead discloses the impact on the carrying value of Upstream assets by way of sensitivity analysis (see note 6c).

Accordingly, the Group is mindful of these dynamics when it considers which areas of the balance sheet are exposed to key estimation uncertainty from climate-related issues. The Group considers which assets are most exposed to impairment from climate risks and similarly whether there are any liabilities that are either currently unrecognised or might increase as a result of those risks.

The Group's assets/liabilities have been segmented into three tranches, grading each balance's exposure to climate risks/opportunities:

(i) Higher risk – As the consumption of gas and power is intrinsically linked to carbon emissions, their pricing is consequently exposed to climate and legislative risk. Accordingly, where assets (or contract) values have a key dependency on commodity price assumptions, those assets (or contracts) are deemed higher risk.

(ii) Medium risk – Gross margin energy transition considerations and its potential impact on forward-looking balances (e.g. Supply and Services and Energy Trading goodwill) and decommissioning balances in E&P.

(iii) Lower risk – No significant risk identified on the basis that positions are short-term in nature or are specifically linked to the energy transition or are immaterial.

The key non-current asset (and decommissioning provision) balance sheet items have been presented in more granular detail below, together with the groupings into the above risks and with rationale set out below the table:

| As at 31 December 2022 related to (£m): | Goodwill | Intangibles | Investment in Associates | Property, Plant & Equipment | Deferred tax assets | Decommissioning provision |
|---|---|---|---|---|---|---|
| **Energy Supply** | 197 | | | | | |
| Customer relationships | | 16 | | | | |
| Emission certificates | | 271 | | | | |
| Application software | | 146 | | | | |
| **Energy Services** | 63 | | | | | |
| Customer relationships | | 6 | | | | |
| Brand (mainly Dyno) | | 57 | | | | |
| Application software | | 128 | | | | |
| Battery storage | | | | 40 | | |
| Electric vehicles (vans/cars) | | | | 45 | | |
| Non-Electric vehicles (vans/cars) | | | | 22 | | |
| **Energy Trading** | 149 | | | | | |
| Customer relationships | | 18 | | | | |
| Emission certificates | | 9 | | | | |
| Application software | | 29 | | | | |
| LNG vessel leases | | | | 124 | | |
| **Gas Assets (E&P and Storage)** | – | | | | | |
| E&P fields (Spirit) | | | | 1,124 | (256) | (1,175) |
| E&P tax losses (Spirit) | | | | | 214 | |
| Gas storage facility (Rough) | | | | 71 | 131 | (324) |
| **Power Generation** | – | | | | | |
| Nuclear investment | | | 1,560 | | | |
| Gas-fired power stations / engines | | | | 95 | | (15) |
| Combined heat and power (CHP) / fuel cell | | | | 45 | | |
| Solar | | | | 14 | | |
| **Group/Other** | – | | | | | |
| Application software | | 27 | | | | |
| Land & Buildings (i) | | | | 104 | | |
| Derivatives deferred tax (i) | | | | | 1,713 | |
| Other (i) | | | 20 | 64 | (93) | |
| **Total** | 409 | 707 | 1,580 | 1,748 | 1,709 | (1,514) |

(i) Land & Buildings, Derivatives deferred tax and Other Property, Plant & Equipment/Associates/Deferred tax have not been allocated out across business type.

Higher
Medium
Lower

All items noted above may be impacted by climate-related risks but are not currently considered to be key areas of judgement or sources of estimation uncertainty in the current financial year.

**Higher Risk**

E&P field valuations are dependent on forecast commodity prices. Climate change risk means that there is uncertainty over gas demand and forecast prices. This is not currently a key source of estimation uncertainty because current liquid commodity prices mean that there is significant impairment headroom over current carrying values. Nonetheless, valuation sensitivity information based on a net zero price forecast has been provided in note 6c to show field values can move significantly. (Note that the Group's intention is to run-off remaining fields with most production forecast in the next five years. Decommissioning obligations will be substantively met by the early 2030s, whilst further investment in exploring for new gas fields has ceased.) Recoverability of E&P deferred tax assets associated with historic losses is dependent on future field profitability and so is subject to climate change risk.

The valuation of the Investment in Nuclear is also highly dependent on forecast commodity prices. Climate change risks and opportunities means there is uncertainty over electricity demand and forecast prices. The underlying Nuclear stations, which produce electricity with no carbon emissions, have different useful economic lives, with the last station forecast to cease operating in 2055. Valuation sensitivity information based on a net zero price forecast has been provided in note 6c.

**Medium Risk**

The Group's small number of Gas-fired power stations and engines are exposed to climate change risk, with valuations dependent on forecast gas and electricity prices and electricity demand. However, they are deemed medium risk as they do not have a significant carrying value in the context of the Group.

Similarly the Group's investment in CHP and Fuel Cell assets are also exposed to climate risk. They have useful economic lives of up to 15 years but they do not, individually or in total, have material carrying values.

LNG Vessels on the balance sheet are exposed to risk from climate change, but as they are leased assets with the current term remaining less than five years, this risk is reduced to medium.

The Group is in the process of transitioning to an electrified vehicle fleet. Non-electric vehicles are deemed medium risk because their remaining useful economic lives are generally quite short.

Decommissioning provisions are generally longer term but this could be brought forward for E&P assets if the energy transition accelerates. However, as the decommissioning discount rate is only 1% (real) the balance sheet and income statement impact of earlier decommissioning would not be material.

Deferred tax associated with field accelerated capital allowances and decommissioning in E&P and Storage is not considered high risk due to the length of carry-back rules for decommissioning and the mechanical unwind of other temporary differences. Deferred tax assets associated with derivatives are considered medium risk as the derivatives generally realise within 2 years.

Energy Supply, Energy Services and Energy Trading Goodwill, Customer Relationships and Application Software are categorised as medium risk because the businesses are exposed to energy transition risk as a result of climate change. However, there are also significant opportunities for these businesses and the carrying values are not material.

**Lower Risk**

All other assets denoted in the table above are considered lower risk because they are either specifically related to the energy transition (e.g. electric vehicles, battery storage, emission certificates) or are immaterial.

**Other contracts**

The Group also has long-term LNG supply contracts with Cheniere and Mozambique. These are not reflected on the balance sheet but the Group has certain purchase commitments (see note 17).The contracts currently have significant value because of gas price locational spreads but are exposed to climate-change risk and therefore could ultimately become onerous in Net Zero scenarios. The commitments note provides detail of the length of the contracts and commodity purchase commitments.

## 4. Risk management

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. The system of risk management and internal control is set out in the 2021 Annual Reports and Accounts.

During 2022, the risks that were prioritised for leadership attention related to:

- risk of financial loss due to counterparty default, volatile commodity markets or a credit event limiting the availability of financial facilities or unsecured credit lines;
- risk of financial loss due to trends and volatilities in commodity prices;
- the impact on present or future profitability resulting from deviations to normal weather;
- failure to deliver satisfactory customer service, leading to complaints or loss of customers;
- the risk of political or regulatory intervention and changes, failure to comply with laws and regulations, or greater regulatory scrutiny detecting unknown areas of non-compliance;
- risk of failure to attract, develop and retain key talent and/or deterioration in the health and wellbeing of our employees;
- risk of occupational, transportation, customer/third party fatality or injury due to safety hazards;
- risk of failure to prevent impacts from the denial of service, cyber espionage and the related theft/disclosure of confidential/customer data leading to reputational, regulatory and financial impacts;
- the risk that impaired structural or asset integrity, resulting from any of a failure in design, failure in appropriate maintenance and inspection, operating outside of design conditions and/or human error, leads to a major accident (such as loss of containment of flammable/hazardous materials or structural collapse) that could result in multiple fatalities and/or major damage to the environment; and
- impact of market, regulatory and policy changes on climate change affecting the Group.

Global wholesale energy prices have put pressure on the energy market, with gas and electricity prices reaching record levels during the year, exacerbated by the war in Ukraine and cessation of supply to Europe from the Nord Stream 1 pipeline. Higher price levels and extreme volatility severely increased the credit and liquidity, market and weather risks within year, which the Group manages through agile hedging policies and effective demand forecasting. The reopening of the Rough gas storage facility will further strengthen the UK's energy resilience. The long-term aim is to turn Rough into the world's largest methane and hydrogen storage facility. The Group will reallocate capital investment to bolster the UK's energy security, decarbonise the UK's industrial clusters and help reinstate the UK as a net exporter of energy

Compliance with the many requirements proposed in the Government's paper on Restoring Trust in Audit and Corporate Governance is flagged as an emerging risk and there are projects in progress to understand, design and implement our responses.

Financial risks are assessed at a Business Unit (BU) level to determine the impact and likelihood. During the BU and Group level risk reviews, the adequacy of mitigating actions are considered given the net residual risk scores in comparison to the Group risk appetite.

Bi-annually, the Group Financial Risks are presented to the Centrica Leadership Team (CLT) for review and challenge. These include the aggregate risk assessments from the BU 'bottom-up' process and any Group level risk assessments. All Group Principal Risks including Financial risks as updated by the CLT are presented to the Audit and Risk Committee for review.

The four main areas of financial risk are managed as follows:

(i) commodity price risk management is carried out in accordance with the individual business unit policies and directives including appropriate escalation routes, as approved by the Group Hedging Policy Committee;

(ii) treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board;

(iii) wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy, including appropriate escalation routes; and

(iv) downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

### Credit risk for financial assets

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for relevant counterparty credit limits and updates these as necessary, based on a consistent set of principles. It continues to operate within its limits. In respect of trading activities across Europe there is an effort to maintain a balance between exchange-based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition, the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

## Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern, and as at the reporting date, the analysis performed by the Group extends to 31 December 2024. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its gross debt (excluding non-recourse debt) in the capital market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

In response to the extremely volatile commodity market conditions witnessed during 2022, the Group proactively increased the level of committed credit bank facilities to ensure additional liquidity was available, if required, as the business entered the winter period.

At 31 December 2022 the Group had undrawn committed credit facilities of £3,951 million (2021: £3,006 million) and £3,687 million (2021: £3,875 million) of unrestricted cash and cash equivalents, net of outstanding overdrafts. 82% (2021: 89%) of the Group's gross debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 9.9 years (2021: 10.9 years). The completion of the disposal of the Direct Energy business on 5 January 2021 led to a cash receipt of $3.6 billion (£2.7 billion), significantly improving the Group's adjusted net debt position.

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these agreements depend on the counterparty and the specific details of the transaction. Margin/collateral is generally posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and received when contracts are in the money. Cash is generally returned to the Group or by the Group within two days of trade settlement. At 31 December 2022 the collateral position was as follows:

| 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Collateral (received)/posted included within: | | |
| Trade and other payables | **(601)** | (1,185) |
| Trade and other receivables | **1,154** | 888 |
| Collateral posted/(received) extinguishing: | | |
| Net derivative liabilities/(assets) (i) | **270** | (114) |
| **Net collateral posted/(received) (ii)** | **823** | (411) |

(i) Variation margin on daily settled derivatives results in the extinguishment of the net derivative asset/liability. These contracts remain outstanding until a future delivery date, and therefore the cumulative daily settlement is considered collateral until that fulfilment date.

(ii) In-year movements of net collateral posted/(received) include exchange adjustments of £61 million (2021: £4 million).

Commodity prices were very volatile throughout 2022. During the year, the peak month-end net collateral posted (i.e. outflow) was in August and amounted to £1.9 billion. The Group utilises initial margin waiver facilities to help manage its liquidity and working capital position in relation to derivative trading. For certain types of trade, initial margin is a requirement before entering into a transaction, as it provides credit assurance for the exchange. As initial margin is not a liability of the Group and is refundable, it is reflected as a margin asset on the Group's balance sheet. Accordingly, where counterparties waive any requirement to post initial margin, the Group has no liability.

The level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

## 5. Segmental analysis

**The Group's reporting segments are those used internally by management to run the business and make decisions. The Group's segments are based on products and services as well as the major factors that influence the performance of these products and services across the geographical locations in which the Group operates.**

### (a) Segmental structure

The types of products and services from which each reportable segment derived its income during the year are detailed below. Income sources are reflected in Group revenue unless otherwise stated:

| Segment | Description |
|---|---|
| **British Gas Services & Solutions** | (i) The installation, repair and maintenance of domestic central heating and related appliances, and the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK; and<br>(ii) the supply of new technologies and energy efficiency solutions in the UK. |
| **British Gas Energy** | The supply of gas and electricity to residential and small business customers in the UK. |
| **Bord Gáis Energy** | (i) The supply of gas and electricity to residential, commercial and industrial customers in the Republic of Ireland;<br>(ii) the installation, repair and maintenance of domestic central heating and related appliances in the Republic of Ireland; and<br>(iii) power generation in the Republic of Ireland [(i)]. |
| **Centrica Business Solutions** | (i) The supply of gas and electricity to business customers in the UK [(i)]; and<br>(ii) the supply of energy services and solutions to large organisations in all geographies in which the Group operates, and the development and operation of large-scale power assets in the UK. |
| **Energy Marketing & Trading** | (i) The procurement, trading and optimisation of energy in the UK and Europe [(i)];<br>(ii) the global procurement and sale of LNG; and<br>(iii) the generation of power from the Spalding combined cycle gas turbine tolling contract (the contract ended in 2021). |
| **Upstream** | (i) The production and processing of oil and gas principally within Spirit Energy [(i)]; and<br>(ii) the sale of power generated from nuclear assets in the UK. |

(i) Where income is generated from contracts in the scope of IFRS 9, this is included in re-measurement and settlement of derivative energy contracts.

## 5. Segmental analysis

### (b) Revenue

**Gross segment revenue includes revenue generated from the sale of products and services to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.**

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Year ended 31 December | Gross segment revenue £m | Less inter-segment revenue £m | Group revenue £m | Gross segment revenue £m | Less inter-segment revenue £m | Group revenue £m |
| British Gas Services & Solutions | 1,527 | (50) | 1,477 | 1,513 | (53) | 1,460 |
| British Gas Energy | 13,096 | — | 13,096 | 7,513 | — | 7,513 |
| Bord Gáis Energy | 1,771 | — | 1,771 | 1,111 | — | 1,111 |
| Centrica Business Solutions | 3,000 | (19) | 2,981 | 1,981 | (28) | 1,953 |
| Energy Marketing & Trading | 14,441 | (219) | 14,222 | 6,082 | (214) | 5,868 |
| Upstream | 3,351 | (3,261) | 90 | 2,282 | (1,887) | 395 |
| Group revenue included in business performance | 37,186 | (3,549) | 33,637 | 20,482 | (2,182) | 18,300 |
| Less: revenue arising on contracts in scope of IFRS 9 included in business performance | | | (9,896) | | | (3,556) |
| **Group Revenue** | | | 23,741 | | | 14,744 |

The table below shows the Group revenue arising from contracts with customers, and therefore in the scope of IFRS 15, and revenue arising from contracts in the scope of other standards. The key economic factors impacting the nature, timing and uncertainty of revenue and cash flows are considered to be driven by the type and broad geographical location of the customer. The analysis of IFRS 15 revenue below reflects these factors.

| | 2022 | | | | |
|---|---|---|---|---|---|
| Year ended 31 December | Revenue from contracts with customers in scope of IFRS 15 [(i)] £m | Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m | Group revenue £m | Revenue in business performance arising from contracts in scope of IFRS 9 £m | Group revenue included in business performance £m |
| Energy services and solutions | 625 | | | | |
| **British Gas Services & Solutions** | 625 | 852 | 1,477 | — | 1,477 |
| Energy supply- UK | 13,096 | | | | |
| **British Gas Energy** | 13,096 | — | 13,096 | — | 13,096 |
| Energy supply- Republic of Ireland | 1,323 | | | | |
| **Bord Gáis Energy** | 1,323 | — | 1,323 | 448 | 1,771 |
| Energy supply- UK | 1,465 | | | | |
| Energy services | 249 | | | | |
| **Centrica Business Solutions** | 1,714 | 14 | 1,728 | 1,253 | 2,981 |
| Energy sales to trading and energy procurement counterparties | 5,639 | | | | |
| **Energy Marketing & Trading** | 5,639 | 16 | 5,655 | 8,567 | 14,222 |
| Gas and liquid production | 462 | | | | |
| **Upstream** | 462 | — | 462 | (372) | 90 |
| | 22,859 | 882 | 23,741 | 9,896 | 33,637 |

(i) The Group has recognised £1,539 million of revenue from the Government in relation to the Energy Price Guarantee scheme for domestic customers in the British Gas Energy segment. A further £219 million of revenue has been recognised in respect of the Energy Bill Relief Scheme. £175 million of this total relates to Centrica Business Solutions customers and £44 million relates to non-domestic customers in the British Gas Energy segment. A further £1,125 million was received, and provided to customers of the British Gas Energy segment in respect of the Government's Energy Bill Support Scheme resulting in a net £nil presentation in the Group's income statement, see note 1.

## 5. Segmental analysis

| Year ended 31 December | Revenue from contracts with customers in scope of IFRS 15 £m | Revenue from fixed-fee service and insurance contracts in scope of IFRS 4, and leasing contracts in scope of IFRS 16 £m | Group revenue £m | Revenue in business performance arising from contracts in scope of IFRS 9 £m | Group revenue included in business performance £m |
|---|---|---|---|---|---|
| | 2021 | | | | |
| Energy services and solutions | 554 | | | | |
| **British Gas Services & Solutions** | 554 | 906 | 1,460 | — | 1,460 |
| Energy supply- UK | 7,513 | | | | |
| **British Gas Energy** | 7,513 | — | 7,513 | — | 7,513 |
| Energy supply- Republic of Ireland | 903 | | | | |
| **Bord Gáis Energy** | 903 | — | 903 | 208 | 1,111 |
| Energy supply- UK | 944 | | | | |
| Energy services | 297 | | | | |
| **Centrica Business Solutions** | 1,241 | 7 | 1,248 | 705 | 1,953 |
| Energy sales to trading and energy procurement counterparties | 2,825 | | | | |
| **Energy Marketing & Trading** | 2,825 | 35 | 2,860 | 3,008 | 5,868 |
| Gas and liquid production | 760 | | | | |
| **Upstream** | 760 | — | 760 | (365) | 395 |
| | 13,796 | 948 | 14,744 | 3,556 | 18,300 |

## Geographical analysis of revenue and non-current assets

The Group monitors and manages performance by reference to its operating segments and not solely on a geographical basis. However, provided below is an analysis of revenue and certain non-current assets by geography.

| | Group revenue (based on location of customer) | | Non-current assets (based on location of assets) (i) | |
|---|---|---|---|---|
| Year ended 31 December | **2022 £m** | 2021 £m | **2022 £m** | 2021 £m |
| **Continuing operations** | | | | |
| UK | **17,480** | 10,891 | **3,827** | 4,203 |
| Republic of Ireland | **1,323** | 903 | **152** | 139 |
| Scandinavia (including Denmark) | **1,473** | 894 | **181** | 173 |
| North America | **867** | 413 | **14** | 25 |
| Rest of the world | **2,598** | 1,643 | **353** | 332 |
| | **23,741** | 14,744 | **4,527** | 4,872 |

(i) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial assets within trade and other receivables, and contract-related assets. Assets of disposal groups held for sale are not included.

## 5. Segmental analysis

### (c) Adjusted gross margin and adjusted operating profit

**The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes business performance results of equity-accounted interests.**
**This note also details adjusted gross margin. Both measures are reconciled to their statutory equivalents.**

| | Adjusted gross margin | | Adjusted operating profit | |
|---|---|---|---|---|
| Year ended 31 December | **2022 £m** | 2021 £m | **2022 £m** | 2021 £m |
| **British Gas Services & Solutions** | **504** | 574 | **(9)** | 121 |
| **British Gas Energy** | **1,114** | 849 | **72** | 118 |
| **Bord Gáis Energy** | **160** | 136 | **31** | 28 |
| **Centrica Business Solutions** | **238** | 143 | **44** | (52) |
| **Energy Marketing & Trading** | **1,558** | 242 | **1,400** | 70 |
| **Upstream** | **1,874** | 926 | **1,793** | 663 |
| **Segmental adjusted gross margin/adjusted operating profit** | **5,448** | 2,870 | **3,331** | 948 |
| **Reconciling items to Group Income Statement:** | | | | |
| **Profit share** (i) | **(9)** | — | **(23)** | — |
| **Total Group adjusted gross margin/adjusted operating profit** | **5,439** | 2,870 | **3,308** | 948 |
| Certain re-measurements: | | | | |
| Onerous energy supply contract provision movement | **1,766** | (2,530) | **1,766** | (2,530) |
| Derivative contracts | **(5,160)** | 1,289 | **(5,160)** | 1,289 |
| Share of re-measurement of certain associates' energy contracts (net of taxation) | **—** | — | **1** | — |
| **Gross profit** | **2,045** | 1,629 | | |
| Exceptional items in operating profit | | | **(155)** | 1,247 |
| **Operating (loss)/profit after exceptional items and certain re-measurements** | | | **(240)** | 954 |

(i) The impact of the Group's profit share is excluded because management consider it unrelated to segmental business performance.

## 5. Segmental analysis

### (d) Included within adjusted operating profit

**Presented below are certain items included within adjusted operating profit, including a summary of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.**

| | Depreciation and impairments of property, plant and equipment | | Amortisation, write-downs and impairments of intangibles | |
|---|---|---|---|---|
| Year ended 31 December | **2022 £m** | 2021 £m | **2022 £m** | 2021 £m |
| **British Gas Services & Solutions** | **(31)** | (29) | **(16)** | (14) |
| **British Gas Energy** | **(3)** | (5) | **(79)** | (91) |
| **Bord Gáis Energy** | **(8)** | (5) | **(13)** | (13) |
| **Centrica Business Solutions** | **(13)** | (14) | **(32)** | (34) |
| **Energy Marketing & Trading** | **(31)** | (38) | **(15)** | (11) |
| **Upstream** | **(481)** | (461) | **—** | (25) |
| **Other** [(i)] | **(31)** | (31) | **(24)** | (28) |
| | **(598)** | (583) | **(179)** | (216) |

(i) The Other segment includes corporate functions, subsequently recharged.

**Impairments and write-downs of PP&E**

During 2022, £88 million of impairments of PP&E (2021: £3 million) were recognised within business performance – £84 million in the Upstream segment and £4 million in the Other segment. Included in the Upstream segment write-down was £64 million related to an infill well that was dry, and a £20 million impairment associated with a producing field whose recoverable amounts reduced during the year due to worsening economics.

**Write-downs and impairments of intangible assets**

During 2022, there were no write-downs relating to exploration and evaluation asset dry holes (2021: £25 million) recognised in the Upstream segment. All such prior year write-downs were recognised within business performance as they were not deemed exceptional in nature. During 2022, £20 million of other intangible assets were impaired within business performance (2021: £3 million).

The recoverable amount of these assets was £nil.

## 5. Segmental analysis

### (e) Capital expenditure

**Capital expenditure represents additions, other than assets acquired as part of business combinations, to property, plant and equipment and intangible assets. Capital expenditure has been reconciled to the related cash outflow.**

| | Capital expenditure on property, plant and equipment | | Capital expenditure on intangible assets other than goodwill | |
|---|---|---|---|---|
| Year ended 31 December | **2022 £m** | 2021 £m | **2022 £m** | 2021 £m |
| **British Gas Services & Solutions** | **52** | 32 | **25** | 20 |
| **British Gas Energy** | **—** | — | **582** | 474 |
| **Bord Gáis Energy** | **3** | 40 | **4** | 6 |
| **Centrica Business Solutions** | **47** | 17 | **205** | 166 |
| **Energy Marketing & Trading** | **—** | — | **14** | 34 |
| **Upstream** | **124** | 238 | **13** | 51 |
| **Other** | **26** | 8 | **—** | — |
| **Capital Expenditure** | **252** | 335 | **843** | 751 |
| Capitalised borrowing costs | **—** | (8) | **—** | — |
| Inception of new leases and movements in payables and prepayments related to capital expenditure | **(49)** | (49) | **5** | 24 |
| Capital expenditure cash outflow subsequent to transfer to held for sale | **109** | 21 | **10** | — |
| Purchases of emissions allowances and renewable obligation certificates (i) | **—** | — | **(799)** | (654) |
| **Net cash outflow** | **312** | 299 | **59** | 121 |

(i) Purchases of emissions allowances and renewable obligation certificates of £578 million (2021: £472 million) in British Gas Energy, £203 million (2021: £155 million) in Centrica Business Solutions, £13 million (2021: £nil) in Upstream, and £5 million (2021: £27 million) in Energy Marketing & Trading.

## 5. Segmental analysis

### (f) Free cash flow

**Free cash flow is used by management to assess the cash generating performance of each segment, after taking account of the need to maintain its capital asset base. By excluding deficit reduction payments and movements in collateral and margin cash, which are predominantly triggered by wider market factors, and in the case of collateral and margin movements, represent timing movements, free cash flow is used by management as an adjusted measure of the cash generation of the business. Free cash flow excludes investing cash flows that are related to adjusted net debt/cash. This measure is reconciled to the net cash flow from operating and investing activities.**

| Year ended 31 December | 2022 £m | 2021 £m |
|---|---|---|
| **Continuing operations** | | |
| **British Gas Services & Solutions** | **(19)** | 170 |
| **British Gas Energy** [(i)] | **1,283** | 16 |
| **Bord Gáis Energy** | **81** | 3 |
| **Centrica Business Solutions** | **(48)** | 22 |
| **Energy Marketing & Trading (ii)** | **199** | 206 |
| **Upstream** [(iii)] | **1,539** | 835 |
| **Other** [(iv)] | **26** | 62 |
| **Segmental free cash flow excluding tax** | **3,061** | 1,314 |
| **Discontinued operations** | | |
| **Direct Energy** | **—** | 2,597 |
| **Group total segmental free cash flow excluding tax** | **3,061** | 3,911 |
| Taxes paid from continuing operations (iii) | **(574)** | (140) |
| Taxes paid from discontinued operations | **—** | (9) |
| **Group total free cash flow** | **2,487** | 3,762 |
| Less Discontinued operations free cash flow (including tax) | **—** | (2,588) |
| **Free cash flow from continuing operations** | **2,487** | 1,174 |
| UK Pension deficit payments (note 14) | **(214)** | (368) |
| Movements in variation margin and collateral (note 4) | **(1,173)** | 481 |
| Interest received | **46** | 2 |
| Purchase and settlement of securities [(v)] | **(398)** | (3) |
| | **748** | 1,286 |
| **Net cash flow from continuing operating activities** | **1,314** | 1,611 |
| **Net cash flow used in continuing investing activities** | **(566)** | (325) |
| **Total cash flow from continuing operating and investing activities** | **748** | 1,286 |

(i) The Group has received £440 million under the Energy Bill Support Scheme during December 2022, which is disclosed as restricted cash (see note 1), and accelerated cash flows of approximately £700 million under the Energy Price Guarantee, when compared to the normal payment profile.

(ii) Energy Marketing & Trading free cash flows in 2022 includes cash outflows associated with increased gas in storage, and working capital movements of approximately £500 million. Energy Marketing & Trading adjusted operating profit includes a significant portion of unrealised derivative positions.

(iii) Upstream free cash flow in 2022 includes inflows of £630 million relating to the Norwegian disposal groups, including its disposal cash flows. Realised hedge cash outflows of £161 million (including £88 million realising post completion) have been incurred relating to the Norwegian assets but were held outside the disposal groups. £300 million of taxes paid relate to the Norway disposal group.

(iv) The Other segment includes corporate functions.

(v) Purchase and settlement of securities includes outflows of £400 million of loans to the pension schemes. See note 14 for further details on pensions loans.

## 6. Exceptional items and certain re-measurements

### (a) Certain re-measurements

**Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.**
**If the future costs to fulfil customer supply contracts, including the mark-to-market reversal of any energy hedging contracts entered into to meet this demand, exceed the charges recoverable from customers, an onerous contract provision will be recognised. Because the associated hedging gains or losses will be recognised in certain re-measurements, the movements in the onerous provision will also be recognised in certain re-measurements.**

| Year ended 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Certain re-measurements recognised in relation to energy contracts: | | |
| Net losses arising on delivery of contracts | **(1,403)** | (259) |
| Net (losses)/gains arising on market price movements and new contracts | **(3,757)** | 1,548 |
| **Net re-measurements included within gross profit before onerous supply contract provision** | **(5,160)** | 1,289 |
| Onerous energy supply contract provision movement [(i)] | **1,766** | (2,530) |
| **Net re-measurements included within gross profit** | **(3,394)** | (1,241) |
| Net gain arising on re-measurement of certain associates' contracts (net of taxation) | **1** | — |
| **Net re-measurements included within Group operating profit** | **(3,393)** | (1,241) |
| Taxation on certain re-measurements (note 8) [(ii)] | **1,000** | 486 |
| **Certain re-measurements after taxation** | **(2,393)** | (755) |

(i) The onerous supply contract provision represents the future costs to fulfil customer contracts on a current market price basis. The associated hedging gains or losses are separately recognised within the losses/gains arising on market price movements and new contracts. The movement in the onerous provision is detailed in note 3(b).

(ii) Taxation on onerous energy supply contracts amounted to a £(295) million debit (2021: £481 million credit) and taxation on other certain re-measurements amounted to £1,295 million credit (2021: £5 million credit), including £473 million associated with re-basing deferred tax on certain relevant derivatives for the Energy Profits Levy.

| Year ended 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Total re-measurement and settlement of derivative energy contracts excluding: | **(8,484)** | (434) |
| IFRS 9 business performance revenue | **(9,896)** | (3,556) |
| IFRS 9 business performance cost of sales | **13,220** | 5,279 |
| **Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit** | **(5,160)** | 1,289 |
| Onerous contract provision movement (cost of sales) | **1,766** | (2,530) |
| **Total certain re-measurements** | **(3,394)** | (1,241) |

The table below reflects the certain re-measurement derivative movements by business segment:

| Year ended 31 December | 2022 £m | 2021 £m |
|---|---|---|
| UK Energy Supply (British Gas Energy and Centrica Business Solutions) | **(6,364)** | 3,917 |
| Upstream/Energy Marketing & Trading/Bord Gáis | **1,204** | (2,628) |
| **Unrealised certain re-measurements recognised in relation to energy contracts included in gross profit** | **(5,160)** | 1,289 |

## 6. Exceptional items and certain re-measurements

### (b) Exceptional items

**Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, pension change costs or credits, significant debt repurchase costs and asset write-downs/impairments and write-backs.**

| Year ended 31 December | 2022 £m | 2021 £m |
|---|---|---|
| **Exceptional items recognised in continuing operations** | | |
| Loss on disposal of E&P Norway (i) | (362) | – |
| Impairment of E&P Norway disposal group assets (including disposal related costs) and related asset write-downs | – | (244) |
| Write-back of other exploration and production assets (including completed field disposals) (ii) | – | 838 |
| Write-back of power assets (iii) | 207 | 747 |
| Impairment of Centrica Business Solutions goodwill and other assets | – | (123) |
| Fair value uplift on minority investment prior to transfer to asset held for sale | – | 15 |
| Restructuring credit | – | 14 |
| **Exceptional items included within Group operating profit (iv)** | (155) | 1,247 |
| Net exceptional item taxation (note 8) (v) | (207) | (250) |
| **Net exceptional items recognised in continuing operations after taxation** | (362) | 997 |
| **Net exceptional items recognised in discontinued operations after taxation** | – | 624 |
| **Total exceptional items recognised after taxation** | (362) | 1,621 |
| | | |
| **Exceptional items recognised in discontinued operations** | | |
| Profit on disposal of Direct Energy (including disposal related costs) | – | 613 |
| **Exceptional items before taxation** | – | 613 |
| Net exceptional item taxation | – | 11 |
| **Net exceptional items recognised in discontinued operations after taxation** | – | 624 |

(i) The disposal of E&P Norway completed on 31 May 2022. See note 15 for further details.

(ii) Despite the increase in near-term liquid commodity prices (offset by the Energy Profit Levy implementation) no material impairment write-backs have been recorded for exploration and production assets because field carrying values have now reached depreciated historic cost. In 2021, impairment write-backs of £829 million (post-tax £476 million) were booked, alongside a field disposal and decommissioning provision reduction of £9 million (post-tax £2 million).

(iii) In the Upstream segment, a write-back of the nuclear investment of £195 million (post-tax £195 million) has been recorded predominantly as a result of the improvement in forecast commodity prices and changes to the associate's pension position (offset by the announcement of the Electricity Generator Levy, applicable from 1 January 2023). In the Centrica Business Solutions segment, a write-back of £12 million (post-tax £9 million) has been recorded, predominantly related to a gas engine, also following improvements in forecast commodity prices. See note 6(c).

(iv) Exceptional items for 2022 are non-cash, except for the disposal consideration received for E&P Norway (see note 15) which is reflected in Sale of businesses line item in the Group Cash Flow Statement. The cash flows recorded as payments relating to exceptional charges of £24 million in the Group Cash Flow Statement relate to previous year exceptional restructuring costs.

(v) Exceptional item taxation includes a credit of £121 million associated with net deferred tax asset recognition related to exploration and production tax losses, investment allowance and decommissioning carrying back, due to the increase in forecast commodity prices. Also included is a debit of £325 million from the recognition of higher deferred tax liability balances associated with exploration and production accelerated capital allowances, due to the implementation of the Energy Profits Levy. These two items are unrelated to the other exceptional items.

## 6. Exceptional items and certain re-measurements

### (c) Impairment accounting policy, process and sensitivities

The information provided below relates to the assets and CGUs (or groups of CGUs) that have been subject to impairment write-backs during the year.

### Exceptional impairments/write-back assessments of assets measured on a Value-in-use (VIU) basis

| Segment | Asset/CGU | Basis for write-back assessment | Recoverable amount £m | Write-back £m |
|---|---|---|---|---|
| Upstream | Nuclear | The year-on-year increase in short-term baseload power prices, together with the actuarial changes to the associate's pension position has more than offset the announcement of the implementation of the Electricity Generator Levy from 1 January 2023 | 1,560 | 195 |

***Nuclear***

A VIU calculation has been used to determine the recoverable amount of the Group's investment in Nuclear. The cash flows incorporated in the valuation are based on detailed business forecasts in the short term, extrapolated to future years to account for the expected generation profile of the fleet for its remaining life. Assumptions include forward commodity prices, capacity rates, fuel and network costs, operating and capital expenditure requirements. Price assumptions are based on liquid market prices for 2023 to 2026 which are then blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are used due to alignment with pricing that a reasonable market participant would use.

The recently announced Electricity Generator Levy, applying a 45% tax rate to revenues generated over £75/MWh from 1 January 2023 to 31 March 2028, based on the above price assumptions, has also been included in the assessment.

The VIU calculation assumes that the Sizewell plant operates until 2055, reflecting a 20-year extension beyond its original design life. In the absence of this extension, the carrying value of the Group's investment in Nuclear would be reduced by £178 million. All other stations' life assumptions are aligned to lifetime closure dates announced by the operator (being between March 2024 and March 2028).

The VIU calculation is also sensitive to changes in outage assumptions, and the base level generation volumes assumed for the fleet were increased during the period based on a review of outage levels in recent years. A reduction of 5% in the unplanned outage rate applied to volumes across the nuclear fleet would lead to a write-back movement of £141 million.

The future pre-tax cash flows generated by the investment in the associate are discounted using a pre-tax nominal discount rate 24.8% (2021: 14.7%). This equated to a post-tax rate of 8.0% (2021: 5.75%). The post-tax discount rate is initially derived from the Group weighted average cost of capital as adjusted for the risks associated with the asset and with reference to comparator companies. The pre-tax rate is then back-calculated by removing tax cash flows and assessing the rate that would give the same result as the post-tax rate. Due to the elevated near-term power prices which results in significantly elevated cash flows in the near-term,the pre-tax discount rate has significantly increased. A 2% increase in the post-tax discount rate would lead to an impairment of £113 million (when compared with the closing year-end carrying value). Similarly, a 2% reduction in the post-tax discount rate would lead to an increased write-back of £150 million.

The asset is particularly sensitive to changes in commodity price and the table below details average prices for the first 5 and 10-year periods and associated sensitivities. Note that the asset is valued for its entire economic life and not just this 15-year period.

| | Five-year liquid and blended-period price (i) | | Ten-year long-term average price (i) | | Change in pre/post-tax write-back/(impairment) (ii) | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | +10% | | -10% | |
| | 2023-2027 | 2022-2026 | 2028-2037 | 2027-2036 | | | | |
| | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| | £/MWh | £/MWh | £/MWh | £/MWh | £m | £m | £m | £m |
| Baseload power | 150 | 93 | 63 | 49 | 198 | 319 | (198) | (317) |
| | | | | | | | -50% Five-year liquid and blended-period only | |
| | | | | | | | (565) | |

(i) Prices are shown in 2021 real terms.

(ii) A 10% change was historically deemed to represent a reasonably possible variation across the entire period covered by the liquid market and comparator curves used in the nuclear impairment test. Given the increases in commodity prices during 2021 and 2022, a further sensitivity has been included based on a 50% fall in liquid and blend-period commodity prices only.

Furthermore, there is also uncertainty due to climate change and international governmental intervention to reduce $CO_2$ emissions and the likely impact this will have on both power demand and forecast prices. As a result, a further sensitivity is disclosed below based on forecast prices aligned to the Net Zero price curve issued by Aurora (a power analytics provider), which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. This sensitivity retains the prices for the liquid period (four years) but replaces the longer term thereafter with Aurora's forecast prices for Net Zero.

## 6. Exceptional items and certain re-measurements

| | Ten-year long-term average price (i) | Change in post-tax impairment (ii) |
|---|---|---|
| | 2027-2036 | |
| | 2022 | £m |
| Baseload power (£/MWh) | **59** | **(105)** |

(i) Prices shown in 2021 real terms.
(ii) Change would lead to an impairment of the carrying value.

### Exceptional impairments/write-back of assets measured on a FVLCD basis

Fair value less costs of disposal (FVLCD) is determined by discounting the post-tax cash flows expected to be generated by the assets or CGU, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows used in the FVLCD calculation are based on the Group's Board-approved business plans and strategic shape assumptions, together with, where relevant, long-term production and cash flow forecasts.

No exceptional impairments or write-backs have been recorded in 2022 for assets measured on a FVLCD basis. Nonetheless, the Upstream gas assets still have a significant carrying value on the balance sheet and accordingly further sensitivities are provided in the paragraph below:

***Upstream gas assets***

For Upstream gas assets post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (i.e. outside the active period for each commodity), prices are determined based on the median of third-party market comparator curves. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Price assumptions are critical and use liquid market prices for 2023 to 2026, blended over a one-year period to long-term price forecasts. Long-term price assumptions derived from third-party market comparator median curves are deemed best aligned with pricing that a reasonable market participant would use. Following the implementation of the Energy Profits Levy, the increased tax rates have been included in the FVLCD calculations until the sunset date of 31 March 2028.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 10.5% (2021: 10.0%).

As forward commodity prices are a key assumption in these valuations, average prices and associated impairment sensitivities for the Group's upstream gas assets are shown below. Note that the fields are valued over their respective economic lives and the 5 and 10-year pricing information shown below is just to provide context. Note also that following the disposal of the Norwegian and Statfjord fields (see note 15), the asset portfolio reserves are predominantly gas (rather than liquids) and therefore only NBP figures have been shown below.

| | Five-year liquid and blended-period price (i) | | Ten-year long-term average price (i) | | Change in post-tax write-back/(impairment) (ii) | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | +10% | | -10% | |
| | 2023-2027 | 2022-2026 | 2028-2037 | 2027-2036 | | | | |
| | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| | | | | | £m | £m | £m | £m |
| NBP (p/th) | **142** | 83 | **69** | 44 | **—** | 8 | **—** | (7) |
| | | | | | | | -50% Five-year liquid and blended-period only | |
| | | | | | | | **(130)** | |

(i) Prices are shown in 2021 real terms.
(ii) Sensitivity relates to Upstream exploration and production assets and CGUs. A 10% change was historically deemed to represent a reasonably possible variation across the entire period covered by both the liquid market and longer-term comparator curves used in upstream gas impairment tests. Given the increases in commodity prices during 2021 and 2022, a further sensitivity has been included based on a 50% fall in liquid and blend-period commodity prices only. The changes shown relate to further write-backs or impairments and are restricted because the most material fields have already been written back to their depreciated historic cost and have excess impairment headroom. The post-tax net present value (NPV) movements of the fields in +/-10% scenario are £150 million/£(144) million and in the -50% liquid price period scenario are £(711) million.

## 6. Exceptional items and certain re-measurements

Furthermore, there is also uncertainty due to climate change and international governmental intervention to reduce $CO_2$ emissions and the likely impact this will have on gas demand and forecast prices. As a result, a further sensitivity is disclosed below based on forecast prices aligned to the International Energy Agency's (IEA) Net Zero Emissions by 2050, which assumes governmental policies are put in place to achieve the temperature and net zero goals by 2050. This sensitivity retains the prices for the liquid period (four years) but replaces the longer term thereafter with the IEA's forecast prices for Net Zero Emissions by 2050.

| | Ten-year long-term average price (i) | Change in post-tax write-back/ (impairment) (ii) | Change in post-tax NPV (iii) |
|---|---|---|---|
| | 2028-2037 | | |
| | 2022 | £m | £m |
| NBP (p/th) | 38 | — | (74) |

(i) Prices shown in 2021 real terms.

(ii) Change in impairment restricted due to the most material fields having already been written back to their depreciated historic cost and having excess impairment headroom.

(iii) Despite no change to the carrying value of the assets, the net present value (NPV) of the fields would reduce under net zero scenarios.

## 7. Net finance cost

**Financing costs mainly comprise interest on bonds and bank debt, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings and notional interest arising from the discounting of decommissioning provisions and pensions. An element of financing cost is capitalised on qualifying projects.**
**Investment income predominantly includes interest received from short-term investments in money market funds, bank deposits and government bonds.**

### Continuing operations

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Year ended 31 December | Financing costs £m | Investment income £m | Total £m | Financing costs £m | Investment income £m | Total £m |
| Cost of servicing net debt: | | | | | | |
| Interest income | — | 52 | 52 | — | 5 | 5 |
| Interest cost on bonds, bank loans and overdrafts | (184) | — | (184) | (189) | — | (189) |
| Interest cost on lease liabilities | (6) | — | (6) | (6) | — | (6) |
| | (190) | 52 | (138) | (195) | 5 | (190) |
| Net gains on revaluation | — | 22 | 22 | — | 4 | 4 |
| Notional interest arising from discounting | (3) | 3 | — | (7) | — | (7) |
| | (193) | 77 | (116) | (202) | 9 | (193) |
| Other interest charges [(i)] | (31) | — | (31) | (2) | — | (2) |
| Capitalised borrowing costs [(ii)] | 4 | — | 4 | 8 | — | 8 |
| **Financing (cost)/income** | (220) | 77 | (143) | (196) | 9 | (187) |

(i) Other interest charges includes interest charged on cash collateral, and fees for letters of credit. The cash flow associated is £30 million.

(ii) Borrowing costs have been capitalised using an average rate of 5.57% (2021: 4.49%). The capitalised borrowing costs in 2022 relate entirely to the Norwegian assets held for sale, and subsequently disposed of.

## 8. Taxation

**The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits together with amendments in respect of tax provisions made in earlier years. This tax charge excludes the Group's share of taxation on the results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.**

### Analysis of tax charge

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Year ended 31 December | Business performance £m | Exceptional items and certain re-measurements £m | Results for the year £m | Business performance £m | Exceptional items and certain re-measurements £m | Results for the year £m |
| **Continuing operations:** | | | | | | |
| **Current tax** | | | | | | |
| UK corporation tax | (385) | (241) | (626) | (7) | (80) | (87) |
| UK petroleum revenue tax | 2 | — | 2 | 24 | — | 24 |
| Non-UK tax | (477) | 32 | (445) | (386) | (21) | (407) |
| Adjustments in respect of prior years – UK | (47) | 24 | (23) | (1) | 18 | 17 |
| Adjustments in respect of prior years – non-UK | (8) | — | (8) | 6 | — | 6 |
| **Total current tax** | (915) | (185) | (1,100) | (364) | (83) | (447) |
| **Deferred tax** | | | | | | |
| Origination and reversal of temporary differences – UK | (105) | 755 | 650 | (63) | 520 | 457 |
| UK petroleum revenue tax | 6 | (19) | (13) | (9) | (129) | (138) |
| Origination and reversal of temporary differences – non-UK | (89) | 32 | (57) | (63) | (45) | (108) |
| Change in UK tax rate | (7) | 242 | 235 | 6 | (9) | (3) |
| Adjustments in respect of prior years – UK | 49 | (27) | 22 | 36 | (18) | 18 |
| Adjustments in respect of prior years – non-UK | 15 | (5) | 10 | 3 | — | 3 |
| **Total deferred tax** | (131) | 978 | 847 | (90) | 319 | 229 |
| **Total taxation on profit/(loss) from continuing operations**[(i)] | (1,046) | 793 | (253) | (454) | 236 | (218) |
| **Discontinued operations:** | | | | | | |
| Current tax – non-UK | — | — | — | — | 11 | 11 |
| **Total taxation on profit from discontinued operations** | — | — | — | — | 11 | 11 |
| **Total taxation on profit/(loss) for the year** | (1,046) | 793 | (253) | (454) | 247 | (207) |

(i) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

### UK tax rates

Most activities in the UK are subject to the standard rate for UK corporation tax of 19% (2021: 19%). Upstream gas production activities are taxed at a rate of 30% (2021: 30%), a supplementary charge of 10% (2021:10%), plus with effect from 26 May 2022, the Energy Profits Levy of 25% to give an overall tax rate of 65% (2021: 40%). Certain upstream gas production assets in the UK are subject to the UK petroleum revenue tax (PRT) regime at the current tax rate of 0% (2021: 0%).

The rate of Energy Profits Levy will increase to 35% from 25% with effect from 1 January 2023. The increase in rate was substantively enacted on 30 November 2022 and therefore the upstream gas deferred tax balances included in these financial statements at 31 December 2022 have been remeasured at the higher rate.

The UK corporation tax rate will increase to 25% with effect from 1 April 2023. At 31 December 2022, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were based on the increased rate having regard to their reversal profiles.

### Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 22% (2021: 22%) plus a special tax of 56% (2021: 56%) resulting in an aggregate tax rate of 78% (2021: 78%).

Taxation in other jurisdictions, where the Group has a substantial presence, is calculated at the rate prevailing in those respective jurisdictions. Jurisdictions and rates include the Republic of Ireland 12.5%, and Denmark 22%.

Prior year adjustments reflect changes made to estimates or to judgements when further information becomes available.

## 9. Dividends

**Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.**

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | £m | Pence per share | Date of payment | £m | Pence per share | Date of payment |
| Prior year final dividend | — | — | — | — | — | — |
| Interim dividend | 59 | 1.00 | 17 Nov 2022 | — | — | — |
| | 59 | | | — | | |

The Directors propose a final dividend of 2.00 pence per share (totalling £118 million) for the year ended 31 December 2022.

The Company has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. At 31 December 2022, Centrica plc's company-only distributable reserves were c.£2.9 billion (2021: c.£2.5 billion). On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up to Centrica plc as appropriate to replenish its reserves.

## 10. Earnings per ordinary share

**Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options.**

Basic earnings per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the year of £782 million (2021: profit of £1,210 million) by the weighted average number of ordinary shares in issue during the year of 5,869 million (2021: 5,836 million). The number of shares excludes 32 million ordinary shares (2021: 35 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares repurchased during the year by the Group as part of the share repurchase programme. These 32 million shares do not include shares expected to be repurchased as part of the Group's share buyback scheme during 2023.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items, assists with understanding the underlying performance of the Group, as explained in note 2.

Information presented for diluted and adjusted diluted earnings per ordinary share uses the weighted average number of shares as adjusted for 68 million (2021: 69 million) potentially dilutive ordinary shares as the denominator, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

### Continuing and discontinued operations

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Year ended 31 December | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Earnings – basic | (782) | (13.3) | 1,210 | 20.7 |
| Net exceptional items after taxation (notes 2 and 6) [(i)] | 279 | 4.8 | (1,521) | (26.0) |
| Certain re-measurement losses after taxation (notes 2 and 6) [(i)] | 2,553 | 43.4 | 548 | 9.4 |
| Earnings – adjusted basic | 2,050 | 34.9 | 237 | 4.1 |
| Earnings – diluted [(ii)] | (782) | (13.3) | 1,210 | 20.5 |
| Earnings – adjusted diluted [(ii)] | 2,050 | 34.5 | 237 | 4.0 |

### Continuing operations

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Year ended 31 December | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Earnings – basic | (782) | (13.3) | 586 | 10.0 |
| Net exceptional items after taxation (notes 2 and 6) [(i)] | 279 | 4.8 | (897) | (15.3) |
| Certain re-measurement losses after taxation (notes 2 and 6) [(i)] | 2,553 | 43.4 | 548 | 9.4 |
| Earnings – adjusted basic | 2,050 | 34.9 | 237 | 4.1 |
| Earnings – diluted [(ii)] | (782) | (13.3) | 586 | 9.9 |
| Earnings – adjusted diluted [(ii)] | 2,050 | 34.5 | 237 | 4.0 |

### Discontinued operations

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Year ended 31 December | £m | Pence per ordinary share | £m | Pence per ordinary share |
| Earnings – basic | — | — | 624 | 10.7 |
| Net exceptional items after taxation (notes 2 and 6) | — | — | (624) | (10.7) |
| Certain re-measurement gains after taxation (notes 2 and 6) | — | — | — | — |
| Earnings – adjusted basic | — | — | — | — |
| Earnings – diluted [(ii)] | — | — | 624 | 10.6 |
| Earnings – adjusted diluted [(ii)] | — | — | — | — |

(i) Net exceptional items after taxation and certain re-measurement losses after taxation are adjusted to reflect the share attributable to non-controlling interests.

(ii) Potential ordinary shares are not treated as dilutive when they would decrease a loss per share.

## 11. Sources of finance

### (a) Capital structure

The Group seeks to maintain an efficient capital structure with a balance of adjusted net cash and equity as shown in the table below:

| 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Adjusted net cash | **(1,199)** | (680) |
| Shareholders' equity | **1,017** | 2,365 |
| **Capital** | **(182)** | 1,685 |

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements, and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of at least three years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies.

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowing is limited to the higher of £10 billion and a gearing ratio of three times Shareholder's equity. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through commercial paper or short-term bank borrowings. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

British Gas Insurance Limited (BGIL) is required to hold a minimum capital amount under PRA regulations and has complied with this requirement since its inception. BGIL's capital management policy and plan are subject to review and approval by the BGIL board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

## 11. Sources of finance

### (b) Adjusted net cash/(debt) summary

**Adjusted net cash/(debt) predominantly includes capital market borrowings offset by cash, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings. Presented in the derivatives and current and non-current borrowings, leases and interest accruals columns shown below are the assets and liabilities that give rise to financing cash flows.**

| | | | | Other assets and liabilities | | | |
|---|---|---|---|---|---|---|---|
| | Current and non-current borrowings, leases and interest accruals £m | Derivatives £m | Gross debt £m | Cash and cash equivalents, net of bank overdrafts (i) (ii) £m | Current and non-current securities (iii) £m | Sub-lease assets £m | Adjusted net (debt)/ cash £m |
| Group adjusted net debt at 1 January 2021 | (4,877) | 346 | (4,531) | 1,393 | 138 | 2 | (2,998) |
| Disposal of business (iv) | 36 | — | 36 | (132) | (4) | — | (100) |
| Cash outflow from settlement and purchase of securities | — | — | — | (3) | 3 | — | — |
| Cash outflow for payment of capital element of leases | 162 | — | 162 | (162) | — | — | — |
| Cash outflow for repayment of borrowings (vi) | 650 | (106) | 544 | (544) | — | — | — |
| Remaining cash inflow | — | — | — | 4,010 | — | — | 4,010 |
| Revaluation | 122 | (133) | (11) | — | 19 | — | 8 |
| Financing interest paid | 206 | (14) | 192 | (233) | — | — | (41) |
| Increase in interest payable and amortisation of borrowings | (195) | — | (195) | — | — | — | (195) |
| New lease agreements and re-measurement of existing lease liabilities | (28) | — | (28) | — | — | — | (28) |
| Exchange adjustments | 25 | — | 25 | (1) | — | — | 24 |
| Group adjusted net (debt)/cash at 31 December 2021 (iv) | (3,899) | 93 | (3,806) | 4,328 | 156 | 2 | 680 |
| Disposal of business (iv) | 6 | — | 6 | (30) | (21) | — | (45) |
| Net cash outflow from net purchase of securities | — | — | — | (398) | 398 | — | — |
| Cash outflow for payment of capital element of leases | 103 | — | 103 | (103) | — | — | — |
| Cash outflow for repayment of borrowings (vi) | 1,482 | — | 1,482 | (1,482) | — | — | — |
| Cash inflow from short term borrowings (vi) | (1,220) | — | (1,220) | 1,220 | — | — | — |
| Remaining cash inflow (iv) (v) | — | — | — | 796 | — | — | 796 |
| Revaluation/interest receivable on securities | 240 | (238) | 2 | — | (11) | — | (9) |
| Financing interest paid | 179 | (8) | 171 | (172) | — | — | (1) |
| Increase in interest payable and amortisation of borrowings | (181) | — | (181) | — | — | — | (181) |
| New lease agreements and re-measurement of existing lease liabilities | (42) | — | (42) | — | — | — | (42) |
| Exchange adjustments | (85) | — | (85) | 83 | 3 | — | 1 |
| Group adjusted net (debt)/cash at 31 December 2022 | **(3,417)** | **(153)** | **(3,570)** | **4,242** | **525** | **2** | **1,199** |

(i) Cash and cash equivalents includes £555 million (2021: £435 million) of restricted cash, of which £440 million relates to cash received from the Energy Bill Support Scheme. This includes cash totalling £6 million (2021: £31 million) within the Spirit Energy business that is not restricted by regulation but is managed by Spirit Energy's own treasury department.

(ii) Cash and cash equivalents are net of £600 million bank overdrafts (2021: £750 million).

(iii) Securities balances includes £403 million of loans to the pension schemes, measured at amortised cost, £67 million (2021: £83 million) other debt instruments and £55 million (2021: £52 million) equity instruments, both measured at fair value. See note 14 for further details on pension loans provided.

(iv) Group adjusted net cash at 31 December 2021 includes £6 million of lease liabilities and £18 million of cash and cash equivalents held for sale related to the Norwegian disposal group, and current and non-current securities includes £21 million related to the Driivz business held for sale at that date. Disposal of business in 2022 represents the disposal of these items as part of the sale of these businesses, and the cash received for the sale is shown as part of remaining cash inflow. Disposal of business in 2021 relates to the adjusted net cash items disposed of with the sale of Direct Energy in January 2021.

(v) Remaining cash inflow includes financing cash outflows of £59 million relating to equity dividends paid (see note 9), £273 million of distributions to non-controlling interests (see note 15) and £43 million related to the share buyback programme. There is a liability of £207 million recognised at 31 December 2022 related to this programme.

(vi) Bond repayment comprises the scheduled £36 million repayment of a 3.68% HKD bond repaid on 22 February 2022, and £246 million repayment of a 6.375% GBP bond repaid on 10 March 2022. During August 2022 the Group borrowed £1,200 million, which was repaid in September 2022. During December 2022 short-term borrowing of £20 million was obtained. See note 4 for collateral volatility. Bond repayment in 2021 comprises £650 million repayment of a 3% Euro bond which the Group had the right to repay at par on 10 April 2021 net of £106 million foreign exchange gain on the associated Euro bond derivative.

## 11. Sources of finance

### (c) Borrowings, leases and interest accruals summary

| 31 December | Coupon rate % | Principal m | 2022 Current £m | 2022 Non-current £m | 2022 Total £m | 2021 Current £m | 2021 Non-current £m | 2021 Total £m |
|---|---|---|---|---|---|---|---|---|
| Bank overdrafts | | | **(600)** | **—** | **(600)** | (750) | — | (750) |
| Bank loans (> 5 year maturity) | | | **—** | **(143)** | **(143)** | — | (137) | (137) |
| Other borrowings | | | **(20)** | **—** | **(20)** | — | — | — |
| Bonds (by maturity date): | | | | | | | | |
| 22 February 2022 | 3.680 | HK$450 | **—** | **—** | **—** | (43) | — | (43) |
| 10 March 2022 | 6.375 | £246 | **—** | **—** | **—** | (241) | — | (241) |
| 16 October 2023 (i) | 4.000 | US$302 | **(246)** | **—** | **(246)** | — | (228) | (228) |
| 4 September 2026 (i) | 6.400 | £52 | **—** | **(49)** | **(49)** | — | (55) | (55) |
| 16 April 2027 | 5.900 | US$70 | **—** | **(58)** | **(58)** | — | (51) | (51) |
| 13 March 2029 (i) | 4.375 | £552 | **—** | **(471)** | **(471)** | — | (559) | (559) |
| 5 January 2032 (ii) | Zero | €50 | **—** | **(69)** | **(69)** | — | (63) | (63) |
| 19 September 2033 (i) | 7.000 | £770 | **—** | **(684)** | **(684)** | — | (788) | (788) |
| 16 October 2043 | 5.375 | US$367 | **—** | **(299)** | **(299)** | — | (267) | (267) |
| 12 September 2044 | 4.250 | £550 | **—** | **(539)** | **(539)** | — | (538) | (538) |
| 25 September 2045 | 5.250 | US$50 | **—** | **(41)** | **(41)** | — | (36) | (36) |
| 10 April 2075 (i) (iii) | 5.250 | £450 | **—** | **(418)** | **(418)** | — | (455) | (455) |
| | | | **(246)** | **(2,628)** | **(2,874)** | (284) | (3,040) | (3,324) |
| Obligations under lease arrangements | | | **(88)** | **(237)** | **(325)** | (102) | (262) | (364) |
| Interest accruals | | | **(55)** | **—** | **(55)** | (68) | — | (68) |
| | | | **(1,009)** | **(3,008)** | **(4,017)** | (1,204) | (3,439) | (4,643) |

(i) Bonds or portions of bonds maturing in 2023, 2026, 2029, 2033 and 2075 have been designated in a fair value hedge relationship.

(ii) €50 million of zero coupon notes have an accrual yield of 4.2%, which will result in a €114 million repayment on maturity.

(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.

## 12. Joint ventures and associates

**Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include the investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear power station fleet. Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.**

### (a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates principally arises from its interest in Nuclear – Lake Acquisitions Limited, an associate, reported in the Upstream segment.

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| Year ended 31 December | **Share of business performance £m** | **Share of exceptional items and certain re-measurements £m** | **Share of results for the year £m** | Share of business performance £m | Share of exceptional items and certain re-measurements £m | Share of results for the year £m |
| Income | **592** | **—** | **592** | 334 | — | 334 |
| Expenses before exceptional items and certain re-measurements | **(472)** | **—** | **(472)** | (459) | — | (459) |
| Exceptional items and re-measurement of certain contracts | **—** | **1** | **1** | — | — | — |
| Operating profit/(loss) | **120** | **1** | **121** | (125) | — | (125) |
| Financing income | **3** | **—** | **3** | 1 | — | 1 |
| Taxation on profit/(loss) | **(31)** | **—** | **(31)** | 21 | — | 21 |
| **Share of post-taxation results of joint ventures and associates** | **92** | **1** | **93** | (103) | — | (103) |

### (b) Interests in joint ventures and associates

| | **2022** | 2021 |
|---|---|---|
| | **Investments in joint ventures and associates £m** | Investments in joint ventures and associates £m |
| 1 January | **1,628** | 843 |
| Additions [(i)] | **18** | — |
| Write-backs [(ii)] | **195** | 747 |
| Share of profit/(loss) for the year | **93** | (103) |
| Share of other comprehensive (loss)/income [(iii)] | **(293)** | 152 |
| Dividends | **(60)** | (2) |
| Disposals [(iv)] | **—** | (2) |
| Other movements | **(1)** | (7) |
| **31 December** | **1,580** | 1,628 |

(i) The £18 million in 2022 relates to cash injections into Greener Ideas Limited.
(ii) The £195 million in 2022 relates to nuclear investment write back (2021: £747 million). See note 6 for further details.
(iii) Share of other comprehensive (loss)/income mainly relates to actuarial changes on pension schemes within the nuclear investment.
(iv) In 2021, the Group sold its 50% equity stake in Barrow Shipping Limited.

### (c) Share of joint ventures' and associates' assets and liabilities

| | **2022** | | | 2021 |
|---|---|---|---|---|
| 31 December | Associates Nuclear £m | Other £m | **Total £m** | Total £m |
| Share of non-current assets | 4,175 | 21 | **4,196** | 5,113 |
| Share of current assets | 842 | — | **842** | 706 |
| | 5,017 | 21 | **5,038** | 5,819 |
| Share of current liabilities | (348) | — | **(348)** | (359) |
| Share of non-current liabilities | (2,612) | (1) | **(2,613)** | (3,140) |
| | (2,960) | (1) | **(2,961)** | (3,499) |
| Cumulative impairment | (497) | — | **(497)** | (692) |
| **Interests in joint ventures and associates** | **1,560** | **20** | **1,580** | 1,628 |
| | | | | |
| **Net cash included in share of net assets** | 112 | — | **112** | 50 |

## 13. Derivative financial instruments

The Group generally uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities associated with treasury management and energy sales and procurement, and for proprietary energy trading purposes. The Group also uses derivatives to hedge exchange risk.
For accounting purposes, derivatives are either classified as held for trading, in which case changes in their fair value are recognised in the Group Income Statement, or they are designated in hedging relationships. Where derivatives are in hedging relationships, the treatment of changes in their fair value depends on the nature of that relationship, and whether it represents a fair value hedge, a cash flow hedge, or a net investment hedge. The table below gives a high-level summary of the Group's accounting for its derivative contracts.

| **Purpose** | **Classification** | **Accounting treatment** |
|---|---|---|
| Proprietary energy trading and treasury management. | Held for trading and fair value hedges. | Changes in fair value recognised in the Group's business performance results for the year. |
| Treasury management and hedging of exchange risk on net assets of US dollar Direct Energy subsidiaries up to date of disposal in 2021. | Cash flow and net investment hedges. | Effective portion of hedge initially recognised in the Group Statement of Other Comprehensive Income. Gains and losses are recycled to the Group Income Statement when the hedged item impacts profit or loss. Ineffective portions of the hedge are recognised immediately in the Group's business performance results for the year. |
| Energy procurement and optimisation. | Held for trading. | Changes in fair value recognised in the Group's exceptional items and certain re-measurements results for the year. |

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| 31 December | **Assets £m** | **Liabilities £m** | Assets £m | Liabilities £m |
| Derivative financial instruments – held for trading under IFRS 9: | | | | |
| Energy derivatives – for procurement/optimisation | **1,723** | **(5,400)** | 3,611 | (2,203) |
| Energy derivatives – for proprietary trading | **5,355** | **(4,256)** | 3,775 | (3,749) |
| Interest rate derivatives | **—** | **—** | 4 | — |
| Foreign exchange derivatives | **275** | **(268)** | 60 | (50) |
| Derivative financial instruments in hedge accounting relationships: | | | | |
| Interest rate derivatives | **37** | **(221)** | 67 | — |
| Foreign exchange derivatives | **37** | **(6)** | 33 | (7) |
| **Total derivative financial instruments** | **7,427** | **(10,151)** | 7,550 | (6,009) |
| Included within: | | | | |
| Derivative financial instruments – current | **6,034** | **(8,841)** | 6,545 | (4,929) |
| Derivative financial instruments – non-current | **1,393** | **(1,310)** | 1,005 | (1,080) |

The contracts included within energy derivatives are subject to a wide range of detailed specific terms, but comprise the following general components, analysed on a net carrying value basis:

| 31 December | **2022 £m** | 2021 £m |
|---|---|---|
| Short-term forward market purchases and sales of gas and electricity: | | |
| UK and Europe | **(214)** | 69 |
| Other derivative contracts including structured gas sale and purchase arrangements | **(2,364)** | 1,365 |
| **Net total** | **(2,578)** | 1,434 |

## 14. Post-retirement benefits

**The Group manages a number of final salary and career average defined benefit pension schemes. It also has defined contribution schemes. The majority of these schemes are in the UK.**

### (a) Summary of main post-retirement benefit schemes

| Name of scheme | Type of benefit | Status | Country | Number of active members as at 31 December 2022 | Total membership as at 31 December 2022 |
|---|---|---|---|---|---|
| Centrica Engineers | Defined benefit final salary pension | Closed to new members in 2006 | UK | **1,615** | **8,433** |
| Pension Scheme | Defined benefit career average pension | Closed to new members in 2022 | UK | **3,198** | **7,237** |
| Centrica Pension Plan | Defined benefit final salary pension | Closed to new members in 2003 | UK | **1,471** | **8,441** |
| Centrica Pension Scheme | Defined benefit final salary pension | Closed to new members in 2003 | UK | **1** | **10,197** |
| | Defined benefit career average pension | Closed to new members in 2008 | UK | **750** | **4,191** |
| | Defined contribution pension | Open to new members | UK | **10,243** | **20,789** |
| Bord Gáis Energy Company Defined Benefit Pension Scheme | Defined benefit final salary pension | Closed to new members in 2014 | Republic of Ireland | **94** | **170** |
| Bord Gáis Energy Company Defined Contribution Pension Plan | Defined contribution pension | Open to new members | Republic of Ireland | **270** | **392** |

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

**Independent valuations**

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions, which together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations agreed and finalised with the Pension Trustees were carried out at the following dates: the Registered Pension Schemes at 31 March 2021 and the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2020. For the Registered Pension Schemes, the full actuarial valuation as at 31 March 2021 was agreed during the year. These valuations have been updated to 31 December 2022 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

**Governance**

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine directors: three independent directors, three directors appointed by Centrica plc (including the Chairman) and one director appointed by each of the three Registered Pension Schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2021 valuation.

## 14. Post-retirement benefits

### (b) Risks

The Registered Pension Schemes expose the Group to the following risks:

**Asset volatility**

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the risk tolerances that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc)), and only took on past service liabilities in respect of active employees.

The trustees significantly reduced their tolerance to scheme valuation risk in 2019, increasing inflation and interest rate hedges from one third to two thirds, and further de-risked thereafter such that there was an 85% hedge level (in relation to assets) at 2021 year-end. This de-risking included the use of collateralised gilt holdings in the Schemes Liability-Driven Investment (LDI) portfolio (shown in the Pension scheme asset table in section (f) of this note within Liability matching assets).

Throughout 2022 and in particular during September, there were significant increases and volatility in gilt yields. This led to a significant fall in the value of assets invested in the UK Registered Pension Schemes' Liability-Driven Investment (LDI) funds, thereby driving collateral calls and temporarily reducing the hedge position. All liquid credit mandates were placed into redemption with proceeds directed to the LDI portfolio to increase collateral and reduce leverage.

In October 2022, the Group agreed to provide the Schemes with a £400 million two-year revolving, unsecured, interest bearing credit facility, and a short-term £150 million loan. This money was immediately drawn down to purchase physical gilts to reduce the extent of interest rate and inflation risk. The short-term loan was repaid in December 2022 and the remaining £400 million credit facility is scheduled for repayment in 2024. At the 2022 year-end, the £400 million loan (together with unpaid interest) is recorded in Securities from a Centrica plc Group perspective and as a reduction to scheme assets for the UK Registered Pension Schemes.

At the 2022 year-end, the inflation and interest rate hedge level in relation to assets is around 92%. This has resulted in a reduction of return-seeking assets within the portfolio, as well as a higher weighting to assets that better manage downside risk.

**Interest rate**

A decrease in bond interest rates will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk. This risk is reduced via the hedging referred to in the Asset volatility section.

**Inflation**

Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Prices Index (RPI) and the Consumer Prices Index (CPI). Therefore, scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. Furthermore, a pension increase exchange (PIE) option implemented in 2015 is available to future retirees, which gives the choice to receive a higher initial pension in return for giving up certain future increases linked to RPI, again limiting the impact of significant movements in inflation. Inflation risk is reduced via the hedging referred to in the Asset volatility section.

**Longevity**

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

**Salary**

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented, and in 2019 a similar change took place for CEPS. All of the 2011, 2016 and 2019 changes result in a reduction in salary risk.

**Foreign exchange**

Certain assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging policies in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2022.

**Total liabilities of the Registered Pension Schemes**

| 31 December | 2022 % |
|---|---|
| Actives – final salary – capped | 11 |
| Actives – final salary – uncapped and crystallised benefits | 5 |
| Actives – career average | 4 |
| Deferred pensioners | 38 |
| Pensioners | 42 |
| | 100 |

## 14. Post-retirement benefits

### (c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are given below:

**Major assumptions used for the actuarial valuation**

| 31 December | 2022 % | 2021 % |
|---|---|---|
| Rate of increase in employee earnings: | | |
| Subject to 2% cap | **1.5** | 1.8 |
| Other not subject to cap | **2.9** | 2.6 |
| Rate of increase in pensions in payment | **3.3** | 3.1 |
| Rate of increase in deferred pensions: | | |
| In line with CPI capped at 2.5% | **2.5** | 2.4 |
| In line with RPI | **3.0** | 3.1 |
| Discount rate | **4.7** | 1.8 |

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

| Life expectancy at age 65 for a member | 2022 | | 2021 | |
|---|---|---|---|---|
| 31 December | Male Years | Female Years | Male Years | Female Years |
| Currently aged 65 | **22.4** | **23.9** | 22.5 | 24.0 |
| Currently aged 45 | **23.6** | **25.0** | 23.8 | 25.1 |

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

For the Registered Pension Schemes, marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

| Impact of changing material assumptions | 2022 | | 2021 | |
|---|---|---|---|---|
| 31 December | Increase/ decrease in assumption [(i)] | Indicative effect on scheme liabilities % | Increase/ decrease in assumption | Indicative effect on scheme liabilities % |
| Rate of increase in employee earnings subject to 2% cap | **1.00 %** | **+1/-2** | 0.25 % | +/-0 |
| Rate of increase in pensions in payment and deferred pensions | **1.00 %** | **+14/-12** | 0.25 % | +/-4 |
| Discount rate | **1.00 %** | **-15/+19** | 0.25 % | -/+5 |
| Inflation assumption | **1.00 %** | **+15/-12** | 0.25 % | +/-5 |
| Longevity assumption | **1 year** | **+/-2** | 1 year | +/-4 |

(i) 1% has been used for sensitivity analysis this year as opposed to 0.25% in the prior year, due to the quantum of market rate movements during the year which mean it is considered that 1% is a more appropriate measure for 2022.

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on the liabilities. For the reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

### (d) Amounts included in the Group Balance Sheet

| 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Fair value of plan assets | **6,312** | 10,666 |
| Present value of defined benefit obligation | **(6,272)** | (10,666) |
| Recognised in the Group Balance Sheet | **40** | — |
| Presented in the Group Balance Sheet as: | | |
| Retirement benefit assets | **150** | 231 |
| Retirement benefit liabilities | **(110)** | (231) |

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the consolidated Financial Statements.

## 14. Post-retirement benefits

### (e) Movements in the year

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Pension liabilities £m** | **Pension assets £m** | Pension liabilities £m | Pension assets £m |
| 1 January | **(10,666)** | **10,666** | (10,671) | 10,070 |
| Items included in the Group Income Statement: | | | | |
| Current service cost | **(84)** | **—** | (85) | — |
| Contributions by employer in respect of employee salary sacrifice arrangements [(i)] | **(21)** | **—** | (20) | — |
| Total current service cost | **(105)** | **—** | (105) | — |
| Past service credit | **—** | **—** | 1 | — |
| Interest (expense)/income | **(193)** | **196** | (155) | 150 |
| Termination benefit | **4** | **—** | 52 | — |
| Items included in the Group Statement of Comprehensive Income: | | | | |
| Returns on plan assets, excluding interest income | **—** | **(4,559)** | — | 301 |
| Actuarial gain/(loss) from changes to demographic assumptions | **34** | **—** | (12) | — |
| Actuarial gain from changes in financial assumptions | **4,803** | **—** | 123 | — |
| Actuarial loss from experience adjustments | **(425)** | **—** | (194) | — |
| Items included in the Group Cash Flow Statement: | | | | |
| Employer contributions | **—** | **264** | — | 420 |
| Contributions by employer in respect of employee salary sacrifice arrangements | **—** | **21** | — | 20 |
| Other movements: | | | | |
| Benefits paid from schemes | **278** | **(278)** | 297 | (297) |
| Other | **(2)** | **2** | (2) | 2 |
| **31 December** | **(6,272)** | **6,312** | (10,666) | 10,666 |

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions and included within the current service cost, with a corresponding reduction in salary costs.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £66 million (2021: £61 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £20 million (2021: £15 million) paid via a salary sacrifice arrangement.

## 14. Post-retirement benefits

### (f) Pension scheme assets

The market values of plan assets were:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| 31 December | Quoted £m | Unquoted £m | Total £m | Quoted £m | Unquoted £m | Total £m |
| Equities | **19** | **486** | **505** | 20 | 462 | 482 |
| Corporate bonds | **24** | **—** | **24** | 2,393 | 31 | 2,424 |
| High-yield debt | **106** | **1,331** | **1,437** | 2,720 | 1,197 | 3,917 |
| Liability matching assets | **2,835** | **1,343** | **4,178** | 1,963 | 1,356 | 3,319 |
| Property | **—** | **366** | **366** | — | 439 | 439 |
| Cash pending investment | **205** | **—** | **205** | 85 | — | 85 |
| Loan and interest | **—** | **(403)** | **(403)** | — | — | — |
| | **3,189** | **3,123** | **6,312** | 7,181 | 3,485 | 10,666 |

Unquoted private equity, liability matching assets and debt funds are valued at fair value as calculated by the investment manager at the latest valuation date in accordance with generally accepted guidelines, adjusted for cash flow in the intervening period. Investment properties are valued in accordance with guidelines by independent valuers. These valuations are reviewed annually as part of the CCCIF audit and receive greater scrutiny now that unquoted assets make up a greater proportion of the scheme portfolio. Included within equities are £nil of ordinary shares of Centrica plc (2021: £nil) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £nil (2021: £nil) of bonds issued by Centrica plc, albeit minor exposure may be held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships which form part of the asset-backed contribution arrangements described in section (g) of this note, no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries. The corporate bond, high-yield debt and liability matching asset categories headings above have segregated portfolio mandates which include the cash, cash funds and derivatives associated with the mandates.

At 31 December 2021 the aggregate gilts portfolio, the quoted element of the Liability matching assets line, was approximately 3 times leveraged (1 times being unleveraged). At 31 December 2022 the aggregate gilts portfolio was significantly less exposed to collateral movements, at approximately 1.3 times leveraged.

Included within the Group Balance Sheet within non-current securities are £95 million (2021: £111 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £49 million (2021: £66 million) relate to this scheme.

### (g) Pension scheme contributions

The Group estimates that it will pay £54 million of ordinary employer contributions during 2023 for its defined benefit schemes, at an average rate of 21% of pensionable pay, together with £26 million of contributions paid via a salary sacrifice arrangement.

For the Registered Pension Schemes the last actuarial valuation, agreed during the year with the Pension Trustees, was as at 31 March 2021. As at that date, the weighted average duration of the liabilities of the Registered Pension Schemes was 22 years and the technical provisions deficit (funding basis) was £944 million. The Group committed to additional annual cash contributions to fund this pension deficit. The overall deficit contributions, including the previously disclosed asset-backed contribution arrangements, totalled £175 million in 2021 (of which £99 million was after 31 March 2021), and £204 million in 2022; and will amount to £175 million per annum from 2023 to 2025, with a balancing payment of £127 million in 2026. Separately, a pension strain payment of £10 million associated with employee redundancies was also contributed in 2022 (2021: £193 million).

On a pure roll-forward basis, from 31 March 2021, using the same methodology and consequent assumptions, the technical provisions deficit (funding basis) would be c.£850 million on 31 December 2022. Note that the valuation methodology and assumptions used for future assessments may differ from those previously used.

In previous years, the Registered Pension Schemes also held a security package over the Group's equity shareholding in the Direct Energy business, amounted to £1,235 million, enforceable in the unlikely event the Group was unable to meet its obligations. In January 2021, as part of the Direct Energy disposal, this security package was released by the Pension Trustees. In exchange, the Group provided replacement security of £745 million of letters of credit and £250 million cash in escrow.

In October 2022, as part of the £400 million loan arrangement from Centrica plc to the Registered Pension Schemes (described in part (b) above), this security was reduced by £545 million, so that only £450 million of letters of credit remained at the year-end. When this loan is repaid, replacement security may be required (dependent on the funding position) and the form of security will be at the Group's discretion.

## 15. Acquisitions, disposals and disposal groups classified as held for sale

**This section details business combinations, asset acquisitions and disposals made by the Group.**

### (a) Business combinations and asset acquisitions

On 1 October 2022 the Group acquired the UK B2B customer book and associated assets of AvantiGas ON Limited ('Avanti') including the hedging book in respect of the customers acquired. On acquisition, an onerous contract provision of £284 million and a derivative asset of £254 million have been separately recognised representing the expected losses, and associated hedges of acquired customers who are expected to remain on their existing fixed price tariffs before anticipated renewals onto a standard variable tariff. The derivative asset reflects the increase in prices since contracts to purchase commodity for the acquired customers were entered. Based on a small unhedged element and movement in forward prices the acquisition resulted in a net consideration received of £16 million. The transaction has been accounted for as an asset acquisition on the basis that the assets and liabilities acquired did not constitute a business.

### Provisional fair value of the identifiable assets and liabilities

| | AvantiGas ON Limited £m |
|---|---|
| **Balance Sheet items** | |
| Intangible assets | **11** |
| Derivative asset | **254** |
| Trade and other receivables | **3** |
| Onerous contract provision | **(284)** |
| **Net identifiable liabilities acquired** | **(16)** |
| Total cash consideration received | **16** |
| | |
| **Income Statement items** | |
| Revenue recognised since the acquisition date in the Group Income Statement | **9** |
| Profit since the acquisition date in the Group Income Statement | **1** |

### Pro forma information

The pro forma consolidated results of the Group, assuming the acquisitions had been made at the beginning of the year, would show revenue of £23,801 million (compared to reported revenue of £23,741 million) and loss after taxation of £632 million (compared to reported loss after taxation of £636 million).

During the year, the Group was appointed by Ofgem as the Supplier of Last Resort (SoLR) to one energy company who had ceased trading. This was in addition to the eight appointments that were made in 2021. These have not been accounted for as business combinations or asset acquisitions as the incremental costs associated with supplying the affected customers will be recoverable through the established Last Resort Supplier Payment (LRSP) claim mechanism under Ofgem supplier licence conditions. Cash outflows of £4 million were incurred in respect of prior year SoLR appointments. A customer relationship intangible asset of £10 million was recognised in 2021 in respect of certain customer credit balances that the Group did not include in their LRSP claims.

### (b) Disposals

On 8 December 2021 the Group announced that it had agreed to sell Spirit Energy's entire Norwegian portfolio excluding the Statfjord fields to Sval Energi for a headline consideration of $1,026 million (£758 million), and the Statfjord fields to Equinor for headline consideration of $50 million (£37 million).

The sales had a commercial effective date of 1 January 2021, and the consideration receivable at legal completion of 31 May 2022 has been reduced by the net cash flows generated by the business being disposed and interest since 1 January 2021. Net consideration receivable (including costs to dispose) reduced to £195 million from Sval Energi, with a net consideration payable to Equinor of £(126) million. This includes a deferred commodity price linked receivable, and a tax indemnity provided by Spirit Energy Norway. The deferred commodity price linked receivable is currently valued at £33 million from Sval Energi and £26 million from Equinor. The tax indemnity provided to Sval Energi is currently valued at £(129) million. Distribution of the net consideration and net cash flows generated will be pro-rata to the ownership share, with 31% attributable to the non-controlling interests. In the year ended 31 December 2022, £273 million (2021: £nil) was distributed to SWM Bayerische E&P Beteiligungsgesellschaft mbH upon completion of the Spirit Energy Norway sale.

In applying IFRS 5: 'Non-current assets held for sale and discontinued operations', the Group has judged that there are two separate disposal groups being the Statfjord fields and the remainder of the Norwegian portfolio. The assets and liabilities comprising the disposal groups were classified as held for sale as at 8 December 2021. This is on the basis that at that point, the disposal groups were available for immediate sale, subject only to terms that are customary for sales of such assets, and the sale was highly probable. However, the disposal groups do not represent a separate major line of business of geographical operations and hence the Group has concluded that they do not constitute discontinued operations.

Details of the assets and liabilities of the disposal group at 31 May 2022 are shown below.

| | Statfjord £m | Norway portfolio excluding Statfjord £m | Total £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 315 | 975 | 1,290 |
| Other intangible assets | — | 69 | 69 |
| Goodwill [(i)] | 19 | 191 | 210 |
| Deferred tax assets [(ii)] | 71 | — | 71 |
| Other non-current financial assets | — | 8 | 8 |
| | 405 | 1,243 | 1,648 |
| **Current assets** | | | |
| Trade and other receivables, and contract-related assets | 5 | 149 | 154 |
| Inventories | 17 | 14 | 31 |
| Cash and cash equivalents | — | 30 | 30 |
| | 22 | 193 | 215 |
| **Assets of disposal groups classified as held for sale** | **427** | **1,436** | **1,863** |
| **Current liabilities** | | | |
| Trade and other payables, and contract-related liabilities | (61) | (129) | (190) |
| Current tax liabilities | (60) | (393) | (453) |
| Provisions for other liabilities and charges | (3) | (1) | (4) |
| Lease liabilities | — | (3) | (3) |
| | (124) | (526) | (650) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities [(ii)] | 140 | (425) | (285) |
| Provisions for other liabilities and charges | (527) | (239) | (766) |
| Lease liabilities | — | (3) | (3) |
| | (387) | (667) | (1,054) |
| **Liabilities of disposal groups classified as held for sale** | **(511)** | **(1,193)** | **(1,704)** |
| **Net (liabilities)/assets of disposal groups classified as held for sale** | **(84)** | **243** | **159** |
| **Consideration (payable)/receivable (net of transaction costs of £16 million)** | **(126)** | **195** | **69** |
| **Loss on disposal before recycling of foreign currency translation reserve** | **(42)** | **(48)** | **(90)** |
| **Recycling of foreign currency translation reserve on disposal** | | | **(272)** |
| **Loss on disposal before and after taxation** | | | **(362)** |

(i) The proposed divestment of the entire Norwegian portfolio, and attributing exploration and production goodwill of £408 million, resulted in an impairment of £198 million in 2021, before transfer of the remaining balance of £210 million to assets of disposal groups classified as held for sale.

(ii) Deferred tax assets of £71 million represents tax attributable to Statfjord UK, part of a UK tax group. Deferred tax liabilities are categorised between Statfjord Norway, and the portfolio excluding Statfjord purely for presentation purposes.

The results of the disposal groups during 2022 reported in business performance are as follows:

| | Statfjord £m | Norway portfolio excluding Statfjord £m | Total £m |
|---|---|---|---|
| Operating profit | 142 | 416 | 558 |
| Taxation on profit | (87) | (351) | (438) |
| Profit after taxation | 55 | 65 | 120 |

Commodity derivatives previously entered into outside of the disposal group to hedge the future production of the disposal group assets, have been volumetrically closed prior to the completion date. These derivatives have previously been recognised as a loss of £121 million within certain re-measurements. In accordance with the Group’s policy, these losses will not be subsequently reflected in the business performance column of the income statement because the underlying performance to which they relate (i.e. the asset production disposal group) will no longer occur. Cash flows associated with these derivatives will occur through to September 2023.
In the period to legal completion of 31 May 2022, £73 million pre-tax (£48 million post-tax) realised losses were recognised in business performance.

Breakdown of consideration:

| | Statfjord £m | Norway portfolio excluding Statfjord £m | Total £m |
|---|---|---|---|
| December 2021 payment | — | 39 | 39 |
| May 2022 completion payment | (156) | 278 | 122 |
| 2022 contingent consideration (including tax indemnity) | 30 | (106) | (76) |
| Total consideration | (126) | 211 | 85 |
| Less cost to dispose | — | (16) | (16) |
| | **(126)** | **195** | **69** |

A reconciliation of the completion amounts received in 2022 to the cash flow statement is presented below:

| | Statfjord £m | Norway portfolio excluding Statfjord £m | Total £m |
|---|---|---|---|
| May 2022 completion payment | (156) | 278 | 122 |
| 2022 contingent consideration paid | 4 | (10) | (6) |
| Cash and cash equivalents included with disposal group | — | (30) | (30) |
| Disposal fees incurred | — | (16) | (16) |
| **Cash flow statement** | **(152)** | **222** | **70** |

Additionally, within the Other segment the disposal of a minority investment made by the former Centrica Innovations business unit in Driivz (an electric vehicle charging software provider) has completed, with cash flow of £20 million received in the second half of the year.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate. These amounted to a gain on disposal of £19 million, and cash inflow of £2 million.

## 16. Trade and other receivables and contract related assets

**Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of expected credit losses. Other receivables include payments made in advance to our suppliers. Contract-related assets are balances arising as a result of the Group's contracts with customers in the scope of IFRS 15.**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| 31 December | Current £m | Non-current £m | Current £m | Non-current £m |
| Financial assets: | | | | |
| Trade receivables | 2,207 | — | 1,546 | — |
| Unbilled downstream energy income | 1,281 | — | 726 | — |
| Trading and energy procurement accrued income (i) | 3,179 | — | 2,546 | — |
| Other accrued energy income | 234 | — | 175 | — |
| Other accrued income | 90 | — | 108 | — |
| Cash collateral posted | 1,154 | — | 888 | — |
| Supplier of Last Resort receivables | 253 | 22 | 124 | 110 |
| Government scheme receivables | 284 | — | — | — |
| Other receivables (including contract assets) | 346 | 24 | 209 | 25 |
| | 9,028 | 46 | 6,322 | 135 |
| Less: provision for credit losses | (872) | — | (633) | — |
| | 8,156 | 46 | 5,689 | 135 |
| Non-financial assets: prepayments, other receivables and costs to obtain or fulfil a contract with a customer | 294 | 83 | 192 | 98 |
| | 8,450 | 129 | 5,881 | 233 |

(i) Trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties, are settled in a short period of time and expected credit losses are not significant.

The amounts above include gross amounts receivable arising from the Group's IFRS 15 contracts with customers of £2,325 million (2021: £1,419 million). Additionally, accrued income of £1,371 million (2021: £797 million) arising under IFRS 15 contracts is included.

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| 31 December | Current £m | Non-current £m | Current £m | Non-current £m |
| Financial assets by business type: | | | | |
| Residential customers (i) | **2,755** | **22** | 1,664 | 110 |
| Business customers | **1,750** | **22** | 1,019 | 21 |
| Treasury, trading and energy procurement counterparties | **4,523** | **2** | 3,639 | 4 |
| | **9,028** | **46** | 6,322 | 135 |
| Less: provision for credit losses | **(872)** | **—** | (633) | — |
| | **8,156** | **46** | 5,689 | 135 |

(i) Residential customers include current other receivables of £253 million (2021: £124 million) and non-current other receivables of £22 million (2021: £110 million) in relation to SoLR claims.

## 16. Trade and other receivables and contract related assets

### Credit loss charge for trade and other receivables

The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential and business customers in the UK. Movements in the provision for credit losses by business type are as follows:

| | **2022** | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Residential customers £m | Business customers £m | Treasury, trading and energy procurement counterparties £m | **Total £m** | Residential customers £m | Business customers £m | Treasury, trading and energy procurement counterparties £m | Total £m |
| 1 January | (426) | (207) | — | **(633)** | (400) | (187) | (4) | (591) |
| Increase in impairment of trade receivables (predominantly related to credit impaired trade receivables) (i) (ii) (iii) | (234) | (124) | — | **(358)** | (84) | (39) | — | (123) |
| Receivables written off (iv) | 93 | 26 | | **119** | 58 | 19 | 4 | 81 |
| **31 December** | (567) | (305) | — | **(872)** | (426) | (207) | — | (633) |

(i) Includes £348 million (2021: £107 million) of credit losses related to trade receivables resulting from contracts in the scope of IFRS 15.

(ii) All loss allowances reflect the lifetime expected credit losses on trade receivables and contract assets.

(iii) Excludes recovery of previously written-off receivables of £7 million (2021: £7 million). Due to the large number of individual receivables and the matrix approach employed, any reduction in provision is reflected in a reduced charge for the relevant period, rather than in separately identifiable reversals of previous provisions.

(iv) Materially all write-offs relate to trade receivables where enforcement activity is ongoing. The gross carrying value of write-offs related to trade receivables where enforcement activity is ongoing was £105 million (2021: £88 million).

| Year ended 31 December | **2022 £m** | 2021 £m |
|---|---|---|
| Increase in impairment provision for trade receivables (per above) | **(358)** | (123) |
| Less recovery of previously written-off receivables | **7** | 7 |
| Credit losses on financial assets (per Group Income Statement) | **(351)** | (116) |

Enforcement activity continues in respect of balances that have been written off unless there are specific known circumstances (such as bankruptcy) that render further action futile.

## 16. Trade and other receivables and contract related assets

### Credit loss charge for trade and other receivables

Receivables from residential and business customers are generally considered to be credit impaired when the payment is past the contractual due date. The Group applies different definitions of default for different groups of customers, ranging from sixty days past the due date to six to twelve months from the issuance of a final bill. Receivables are generally written off only once a period of time has elapsed since the final bill. Contractual due dates range from falling due upon receipt to falling due in thirty days from receipt.

The table below shows credit impaired balances in gross receivables (those that are past due) and those that are not yet due and therefore not considered to be credit impaired.

**Gross trade and other receivables**

| 31 December | 2022 £m | 2021 £m |
|---|---|---|
| Balances that are not past due | **7,414** | 5,155 |
| Balances that are past due (i) | **1,614** | 1,167 |
| | **9,028** | 6,322 |

(i) The majority of balances that are past due relate to residential and business customers, ageing of these receivables is included in the credit risk tables in the sections below.

The IFRS 9 impairment model is applicable to the Group's financial assets including trade receivables, contract assets and other financial assets using the simplified approach. As the majority of the relevant balances are trade receivables and contract assets to which the simplified model applies, this disclosure focuses on these balances.

The provision for credit losses for trade receivables and contract assets is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. Expected credit losses on receivables due from treasury, trading and energy procurement counterparties are not significant. For residential and business customers default rates are calculated initially by considering historical loss experience and applied to trade receivables within a provision matrix. The matrix approach allows application of different default rates to different groups of customers with similar characteristics. These groups are determined by a number of factors including; the nature of the customer, the payment method selected and where relevant, the sector in which they operate. The characteristics used to determine the groupings of receivables are the factors that have the greatest impact on the likelihood of default. The rate of default increases once the balance is thirty days past due.

### Concentration of credit risk in trade and other receivables

Treasury, trading and energy procurement counterparty receivables are typically with customers with external, published credit ratings. Such receivables have typically much lower credit risk than downstream counterparties, and that risk is assessed primarily by reference to the credit ratings rather than to the ageing of the relevant balance.

In 2021, the Group was appointed as a Supplier of Last Resort to a number of energy suppliers who have ceased to trade and one further appointment was made in January 2022. Under Ofgem licence conditions, the Group is entitled to make a Last Resort Supplier Payment claim for incremental costs reasonably incurred to supply affected customers; a total of £275 million (31 December 2021: £234 million) has been recognised in other receivables at 31 December 2022. This is being recovered as part of a two-step claim process. An initial levy claim, based on expected commodity costs, was submitted and approved by Ofgem in 2021, and is being settled in twelve monthly instalments ending in April 2023. A second claim, truing up the initial claim to reflect both actual costs incurred and customer credit balances was submitted to Ofgem and approved in December 2022. The second claim will be recovered between April 2023 and April 2024. The claims are settled by network operators, to whom the Group separately pay transmission and distribution charges. The risk of default is considered low. In addition, Ofgem have the power under licensing conditions to take enforcement action against default in accordance with its statutory duties and its enforcement guidelines.

The Group's cash collateral balance has increased to £1,154 million in 2022 (2021: £888 million) as a result of higher commodity prices. Collateral counterparties typically have strong credit ratings and accordingly have low credit risk; the Group does not expect credit losses to arise on these balances.

The majority of the Group's credit exposure arises in the British Gas Energy and Centrica Business Solutions segments and relates to residential and business energy customers. The credit risk associated with these customers is assessed as described above, using a combination of the age of the receivable in question, internal ratings based on a customer's payment history, and external data from credit rating agencies and wider macroeconomic information. The disclosures below reflect the information that is reported internally for credit risk management purposes in these segments.

## 16. Trade and other receivables and contract related assets

### British Gas Energy credit risk

Of the Group total of £2,207 million (2021: £1,546 million) billed trade receivables, the British Gas Energy reporting segment contributes £1,531 million (2021: £1,033 million). British Gas Energy now includes small business customers on the basis that their profile closely matches those of residential customers. As described above, credit risk is concentrated in receivables from energy customers who pay in arrears. Gross receivables from British Gas Energy residential customers amount to £992 million (2021: £601 million) and are analysed below.

| **Trade receivables due from British Gas residential energy customers as at 31 December** (i) | 2022 | | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Days beyond invoice date (ii) | < 30 days £m | 30-90 days £m | >90 days £m | **Total £m** | Percentage of credit risk | < 30 days £m | 30-90 days £m | >90 days £m | Total £m | Percentage of credit risk |
| Risk profile | | | | | | | | | | |
| Direct debits (iii) | | | | | | | | | | |
| Gross receivables | 216 | 51 | 66 | **333** | | 55 | 28 | 53 | 136 | |
| Provision | — | — | (23) | **(23)** | | — | — | (2) | (2) | |
| Net | 216 | 51 | 43 | **310** | **7 %** | 55 | 28 | 51 | 134 | 1 % |
| Payment on receipt of bill (iii) | | | | | | | | | | |
| Gross receivables | 118 | 54 | 286 | **458** | | 87 | 22 | 194 | 303 | |
| Provision | (4) | (7) | (180) | **(191)** | | (3) | (4) | (102) | (109) | |
| Net | 114 | 47 | 106 | **267** | **42 %** | 84 | 18 | 92 | 194 | 36 % |
| Final bills (iv) | | | | | | | | | | |
| Gross receivables | 12 | 13 | 176 | **201** | | 7 | 8 | 147 | 162 | |
| Provision | (3) | (6) | (140) | **(149)** | | (2) | (4) | (122) | (128) | |
| Net | 9 | 7 | 36 | **52** | **74 %** | 5 | 4 | 25 | 34 | 79 % |
| **Total net British Gas residential energy customers trade receivables** | **339** | **105** | **185** | **629** | **37 %** | 144 | 50 | 168 | 362 | 40 % |

(i) The receivables information presented in this table relates to downstream customers who pay energy bills using the methods presented. It excludes low residual credit risk amounts, such as balances in the process of recovery through pay-as-you-go energy (PAYGE) arrangements and amounts receivable from PAYGE energy vendors. Gross amounts in the process of recovery through PAYGE arrangements at 31 December 2022 are £203 million (2021: £201 million), against which a provision of £138 million is held (2021: £136 million).

(ii) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to residential energy customers. Amounts paid on receipt of a bill (PORB), which are settled using bank transfers, cash or cheques are typically due within fourteen days of invoicing. Direct debit customers typically pay in equal instalments over a twelve-month period.

(iii) Receivables settled by direct debit are deemed to present a lower credit risk than PORB amounts. This is reflected in the relative level of provision held for these types of receivables.

(iv) Final bill customers are those who are no longer customers of the Group and have switched energy supplier. These balances are deemed to have the highest credit risk.

Gross receivables from British Gas Energy small business customers amount to £336 million (2021: £232 million) and are analysed below.

| **Trade receivables due from British Gas small business energy customers as at 31 December** | 2022 | | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Days beyond invoice date (i) | < 30 days £m | 30-90 days £m | >90 days £m | **Total £m** | Percentage of credit risk | < 30 days £m | 30-90 days £m | >90 days £m | Total £m | Percentage of credit risk |
| Risk profile | | | | | | | | | | |
| Small businesses | | | | | | | | | | |
| Gross receivables | 64 | 21 | 251 | **336** | | 48 | 18 | 166 | 232 | |
| Provision | (1) | (2) | (191) | **(194)** | | — | (1) | (128) | (129) | |
| **Total net British Gas small business energy customers trade receivables** | **63** | **19** | **60** | **142** | **58 %** | 48 | 17 | 38 | 103 | 56 % |

(i) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for small business customers are ten working days.

Unbilled downstream energy income at 31 December 2022 includes gross balances of £880 million in respect of British Gas energy customers (2021: £535 million), against which a provision of £36 million is held (2021: £21 million).

## 16. Trade and other receivables and contract related assets

### Centrica Business Solutions energy credit risk

Of the Group total of £2,207 million (2021: £1,546 million) billed trade receivables, the Centrica Business Solutions reporting segment contributes £390 million (2021: £299 million). As described above, credit risk is concentrated in receivables from business energy customers who pay in arrears, the remaining balances being immaterial in disaggregation. Gross receivables from these customers amount to £346 million (2021: £251 million) and are analysed below.

| Trade receivables due from Centrica Business Solutions business energy customers as at 31 December | 2022 | | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Days beyond invoice date (i) | < 30 days £m | 30-90 days £m | >90 days £m | **Total £m** | Percentage of credit risk | < 30 days £m | 30-90 days £m | >90 days £m | Total £m | Percentage of credit risk |
| Risk profile | | | | | | | | | | |
| Commercial and industrial (ii) | | | | | | | | | | |
| Gross receivables | 170 | 9 | 31 | **210** | | 116 | 3 | 47 | 166 | |
| Provision | — | — | (15) | **(15)** | | — | — | (18) | (18) | |
| Net | 170 | 9 | 16 | **195** | **7 %** | 116 | 3 | 29 | 148 | 11 % |
| Medium-sized entities (ME) | | | | | | | | | | |
| Gross receivables | 47 | 15 | 74 | **136** | | 22 | 7 | 56 | 85 | |
| Provision | — | — | (49) | **(49)** | | — | — | (36) | (36) | |
| Net | 47 | 15 | 25 | **87** | **36 %** | 22 | 7 | 20 | 49 | 42 % |
| **Total net Centrica Business Solutions business energy customers trade receivables** | **217** | **24** | **41** | **282** | **18 %** | 138 | 10 | 49 | 197 | 22 % |

(i) This ageing analysis is presented relative to invoicing date and presents receivables according to the oldest invoice outstanding with the customer. There are a range of payment terms extended to business energy customers. Average credit terms for ME customers are ten working days. Credit terms for Commercial and Industrial customers are bespoke and are set based on the commercial agreement with each customer.

(ii) This category includes low credit risk receivables, including those from public sector and customers with high turnover (greater than £100 million).

Unbilled downstream energy income at 31 December 2022 includes gross balances of £349 million in respect of Centrica Business Solutions business energy customers (2021: £193 million), against which a provision of £14 million is held (2021: £5 million).

The remaining reporting segments which are not shown above are not considered to have material credit risk.

## 16. Trade and other receivables and contract related assets

### Sensitivity to changes in assumptions

Typically, the most significant assumption included within the expected credit loss provisioning model that gives rise to estimation uncertainty is that future performance will be reflective of past performance and that there will be no significant change in the payment profile or recovery rates within each identified group of receivables. To address this risk, the Group reviews and updates default rates, by group, on a regular basis to ensure they incorporate the most up to date assumptions along with forward-looking information where available and relevant. The Group also considers regulatory changes and customer segment specific factors that may have an impact, now or in the future, on the recoverability of the balance.

The specific consideration of forward-looking information in the impairment model does not usually give rise to significant changes in the levels of credit losses. However, inflationary pressures and increasing wholesale gas and electricity costs continue to cause uncertainty in economic outlook. The economic recovery remains vulnerable and there remains a level of estimation uncertainty inherent in determining credit loss provisions for the Group's trade receivables.

Where customers experience difficulties in settling balances, the increased ageing of these amounts results in an increase in provisions held in respect of them under the provision matrix approach employed. The Group has also considered changes in customer payment patterns, the specific circumstances of the customers and the economic impacts of the factors identified above, on the sectors in which they operate. Whilst economic recovery is expected, a level of unpredictability remains apparent.

Customers are facing increases in their cost of living, including increased energy bills, higher inflation and higher interest rates. The Group has considered macroeconomic forecasts and sensitivities, as well as disposable income analysis from a credit rating agency, to model and determine the level of provisions for credit losses.

During 2022 the Group recognised impairment charges of £351 million (2021: £116 million) in respect of financial assets, representing 1.5% of Group revenue (2021: 0.8%) and 1.0% of Group revenue from business performance (2021: 0.6%). As described above, the majority of the Group's credit exposure arises in respect of downstream energy receivables in British Gas Energy and Centrica Business Services. Credit losses in respect of these assets amounted to £331 million (2021: £104 million). This represents 2.1% (2021: 1.1%) of total UK downstream energy supply revenue from these segments of £15,814 million (2021: £9,162 million). Further details of segmental revenue are provided in note 5.

Due to the different level of risks presented by billed and unbilled receivables, these asset groups are considered separately in the analysis below.

### Billed trade receivables

| | 31 December 2022 £m | 31 December 2021 £m |
|---|---|---|
| Trade receivables [(i)] | **2,207** | 1,546 |
| Provision | **(822)** | (607) |
| Net balance | **1,385** | 939 |

| | 31 December 2022 % | 31 December 2021 % |
|---|---|---|
| Provision coverage | **37** | 39 |
| Sensitivity | **£m** | £m |
| Impact on billed receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage [(ii)] | **(22)/22** | (16)/16 |

(i) Excludes the government receivables under the Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS) schemes of £284 million (2021: £nil) which are not provided for.

(ii) Credit risk in the Group is impacted by a large number of interacting factors.

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## 16.Trade and other receivables and contract related assets

Cash collection relative to billing has marginally deteriorated throughout the second half of 2022, driven by higher customer billings and credit terms having a lagged impact on conversion. Despite overall billed debt levels increasing significantly, the recovery rates are not showing significant decline and provision rates for customers in the Group's downstream operations have fallen slightly. The drop in provision rates is driven by the mix of customer debt, including a higher proportion of direct debit debt and payment on receipt of bills debt in residential which are considered lower risk and attract a lower rate of bad debt provision.

The macroeconomic environment, however, remains challenging with higher inflation, higher interest rates, lower growth projections and more limited government support measures. There remains significant uncertainty around the possible increase in bad debt as a result of these factors. Also leading debt indicators including the number of new customers going into debt, insolvency volumes in business and direct debit cancellation rates in residential have deteriorated during 2022. High commodity prices and the delayed impact on customer payments (including the recent changes in the residential price cap levels), have not yet been fully reflected in the underlying matrix output model used to record provision coverage. Therefore, as part of management's assessment of adequacy of bad debt provisions, a £95 million increase to the macroeconomic provision has been recorded, the provision now totals £125 million across billed and unbilled debt and is included in the tables both above and below (2021: £30 million), Management considers the impact of specific cohorts of customers when making this assessment, recognising the different credit terms and different risk profiles that exist. This assessment also utilises a range of factors, both internal and external, historic and forward looking, and considers the sensitivities of these to help management estimate the likely recovery of debt.

It remains uncertain as to when and how these factors will reduce the collectability of debt and at what scale. The impact of future changes in commodity prices and government intervention, including for the Energy Price Guarantee (EPG) and the Energy Bill Relief Scheme (EBRS), may also impact this. The table above and the unbilled section below provided details of the sensitivity of moving the debt provision by a further 1%.

The Group's services, upstream and trading operations are less susceptible to credit risk. No significant deterioration of credit risk has been experienced or is expected in the relevant segments in respect of billed trade receivables recognised at 31 December 2022, taking into account cash collection cycles in those areas of the Group and credit rating information

### Unbilled downstream energy income

The table below shows the IFRS 15 unbilled downstream energy income for the Group as a whole.

| | 31 December 2022 £m | 31 December 2021 £m |
|---|---|---|
| Gross unbilled receivables | 1,281 | 726 |
| Provision | (50) | (26) |
| Net balance | 1,231 | 700 |

| | 31 December 2022 % | 31 December 2021 % |
|---|---|---|
| Provision coverage | 4 | 4 |
| Sensitivity | £m | £m |
| Impact on unbilled receivables/operating profit from 1 percentage point (increase)/decrease in provision coverage [(i)] | (13)/13 | (7)/7 |

(i) Credit risk in the Group is impacted by a large number of interacting factors.

Unbilled downstream energy income is typically provided at a significantly lower rate than billed debt. This is because a large proportion of this debt once billed will be subject to the very short cash collection cycles of the Group's downstream energy supply businesses.

## 17. Commitments and contingencies

### (a) Commitments

**Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.**

The Group's commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts where there is a right of offset with the counterparty, and are based on the expected minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

The Group's 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US commits the Group to capacity payments of £3.6 billion (included in 'LNG capacity' below) between 2022 and 2039. It also allows the Group to make up to £6.0 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date.

During 2019, the Group signed a 20-year agreement to purchase LNG volumes from Mozambique LNG1 Company. The commercial start date is 2025 and under this agreement the Group is committed to make commodity purchases expected to amount to £8.0 billion based on market gas and oil prices at the reporting date.

These LNG contracts are deemed to be own use and therefore are accounted for on an accruals basis. Based on forecast gas spreads, they are predicted to be profitable but due to their duration are exposed over a long period of time to the impact of climate change governmental policy decisions.

The Group has numerous renewable power purchase arrangements where renewable obligation certificates are purchased as power is produced. This gives rise to the commitments below.

| 31 December | 2022 £m | 2021 £m |
|---|---|---|
| **Commitments in relation to the acquisition of PP&E** | **75** | 255 |
| **Commitments in relation to the acquisition of intangible assets:** | | |
| Renewable obligation certificates | **3,642** | 3,289 |
| Other intangible assets | **194** | 250 |
| **Other commitments:** | | |
| Commodity purchase contracts | **69,824** | 44,443 |
| LNG capacity | **3,894** | 3,892 |
| Transportation capacity | **320** | 292 |
| Other long-term commitments (i) | **459** | 526 |

(i) Other long-term commitments include amounts in respect of executory contracts and the smart meter roll-out programme.

The maturity analysis for commodity purchase contract commitments at 31 December is given below:

| | Commodity purchase contract commitments | | | |
|---|---|---|---|---|
| | Fixed price commodity commitments | | Commodity commitments that float with indices | |
| 31 December | 2022 £billion | 2021 £billion | 2022 £billion | 2021 £billion |
| <1 year | **13.0** | 6.8 | **15.4** | 9.2 |
| 1–2 years | **2.3** | 1.5 | **10.9** | 7.3 |
| 2–3 years | **0.9** | 0.3 | **7.5** | 4.4 |
| 3–4 years | **0.1** | 0.1 | **2.3** | 3.1 |
| 4–5 years | **—** | — | **1.8** | 1.3 |
| >5 years | **0.1** | — | **15.5** | 10.4 |
| | **16.4** | 8.7 | **53.4** | 35.7 |

## 17. Commitments and contingencies

### (b) Guarantees and indemnities

**This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.**

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

As at 31 December 2022, £84 million (2021: £525 million) of letters of credit and on-demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet. The reduction is predominantly as a result of the disposal of the Norwegian and Statfjord fields - see note 15.

### (c) Contingent liabilities

The Group has no material contingent liabilities.

## 18. Events after the balance sheet date

**The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2022 and the date of this report.**

The Directors propose a final dividend of 2.00 pence per ordinary share (totalling £118 million) for the year ended 31 December 2022. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 13 June 2023 and, subject to approval will be paid on 20 July 2023 to those shareholders on the register at 9 June 2023.

The Group also announced an intention to extend the existing share buyback programme of £250 million by an additional £300 million.

# Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions, is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by DeGolyer & McNaughton for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe.

The principal retained fields in Spirit Energy are Cygnus, South and North Morecambe, Rhyl and Chiswick. The principal non-Spirit Energy field is Rough. The European reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

| **Estimated net 2P reserves of gas (billion cubic feet)** | Spirit Energy – Norway/Statfjord (i) | Spirit Energy – retained fields (i) | Rough | **Total** |
|---|---|---|---|---|
| 1 January 2022 | 189 | 296 | 26 | **511** |
| Revisions of previous estimates (ii) | — | 33 | 8 | **41** |
| Disposals (iii) | (178) | — | — | **(178)** |
| Production (iv) | (11) | (68) | (18) | **(97)** |
| **31 December 2022** | — | 261 | 16 | **277** |

| **Estimated net 2P reserves of liquids (million barrels)** | Spirit Energy – Norway/Statfjord (i) | Spirit Energy – retained fields (i) | Rough | **Total** |
|---|---|---|---|---|
| 1 January 2022 | 55 | 1 | — | **56** |
| Revisions of previous estimates (ii) | — | 1 | — | **1** |
| Disposals (iii) | (53) | — | — | **(53)** |
| Production (iv) | (2) | (1) | — | **(3)** |
| **31 December 2022** | — | 1 | — | **1** |

| **Estimated net 2P reserves (million barrels of oil equivalent)** | Spirit Energy – Norway/Statfjord (i) | Spirit Energy – retained fields (i) | Rough | **Total** |
|---|---|---|---|---|
| **31 December 2022 (v)** | — | 45 | 3 | **48** |

(i) The movements represent Centrica's 69% interest in Spirit Energy.
(ii) Revision of previous estimates include those associated with Cygnus
(iii) Disposal of Spirit Energy entire Norwegian portfolio and Statfjord field.
(iv) Represents total sales volumes of gas and oil produced from the Group's reserves.
(v) Includes the total of estimated gas and liquids reserves at 31 December 2022 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

# Five Year Summary (Unaudited)

| | 2018 (restated) (i) (ii) £m | 2019 (restated) (ii) £m | 2020 (restated) (ii) £m | 2021 £m | **2022 £m** |
|---|---|---|---|---|---|
| Group revenue from continuing operations included in business performance (i) | 16,465 | 15,958 | 14,949 | 18,300 | **33,637** |
| Operating profit/(loss) from continuing operations before exceptional items and certain re-measurements: | | | | | |
| British Gas Services & Solutions (ii) (iii) | 101 | 187 | 191 | 121 | **(9)** |
| British Gas Energy (ii) (iii) | 490 | 117 | 82 | 118 | **72** |
| Centrica Business Solutions (ii) (iii) | (40) | (20) | (132) | (52) | **44** |
| Bord Gáis Energy (ii) (iii) | 44 | 50 | 42 | 28 | **31** |
| Energy Marketing & Trading (ii) (iii) | 35 | 138 | 174 | 70 | **1,400** |
| Upstream (ii) (iii) | 567 | 178 | 90 | 663 | **1,793** |
| Profit share | — | — | — | — | **(23)** |
| | 1,197 | 650 | 447 | 948 | **3,308** |
| Operating profit from discontinued operations before exceptional items and certain re-measurements (ii) (iii) | 195 | 251 | 252 | — | **—** |
| Exceptional items and certain re-measurements after taxation | (416) | (1,531) | (520) | 866 | **(2,755)** |
| Profit/(loss) attributable to equity holders of the parent | 183 | (1,023) | 41 | 1,210 | **(782)** |

| | Pence | Pence | Pence | Pence | **Pence** |
|---|---|---|---|---|---|
| Earnings per ordinary share | 3.3 | (17.8) | 0.7 | 20.7 | **(13.3)** |
| Adjusted earnings per ordinary share | 11.2 | 7.3 | 6.5 | 4.1 | **34.9** |
| Dividend per share in respect of the year | 12.0 | 1.5 | — | — | **1.0** |

## Assets and liabilities

| 31 December (restated) (v) | 2018 £m | 2019 £m | 2020 £m | 2021 £m | **2022 £m** |
|---|---|---|---|---|---|
| Goodwill and other intangible assets | 4,456 | 4,033 | 1,940 | 1,161 | **1,116** |
| Other non-current assets (iv) | 7,435 | 5,826 | 4,767 | 6,040 | **7,234** |
| Net current assets/(liabilities) | 284 | (696) | 622 | 1,465 | **(1,023)** |
| Non-current liabilities (iv) | (8,227) | (7,474) | (8,072) | (6,360) | **(6,047)** |
| Net assets of disposal groups held for sale | — | 106 | 2,125 | 444 | **—** |
| Net assets | 3,948 | 1,795 | 1,382 | 2,750 | **1,280** |
| Adjusted net (debt)/cash (v) (note 11) | (2,946) | (3,507) | (2,998) | 680 | **1,199** |

## Cash flows

| 31 December (restated) (v) | 2018 £m | 2019 £m | 2020 £m | 2021 £m | **2022 £m** |
|---|---|---|---|---|---|
| Cash flow from operating activities before exceptional payments | 2,182 | 1,548 | 1,532 | 1,687 | **1,338** |
| Payments relating to exceptional charges in operating costs | (248) | (298) | (132) | (76) | **(24)** |
| Net cash flow from investing activities | (1,007) | (503) | (285) | 2,263 | **(566)** |
| Cash flow before cash flow from financing activities | 927 | 747 | 1,115 | 3,874 | **748** |

(i) 2018 Group revenue included in business performance has been restated to include the net result of certain commodity purchases and sales trades that are deemed to be speculative in nature.

(ii) Results have been restated to reflect the new operating structure of the Group, effective during 2021.

(iii) Adjusted operating profit has been restated to include the impact of business performance interest and taxation of joint ventures and associates.

(iv) Results from the 2018 figures have not been presented in line with IFRS 16: ‘Leases’.

(v) Results have been restated to reflect the change in definition of adjusted net debt/cash in 2021.

# Ofgem consolidated segmental statement

The Ofgem Consolidated Segmental Statement (CSS) segments our Supply and Generation activities and provides a measure of profitability, weighted average cost of fuel and volumes, in order to increase energy market transparency for consumers and other stakeholders.

The following is an extract from the audited CSS and is prepared in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences. This extract should be read in conjunction with the full CSS which includes the Statement, the audit opinion and the basis of preparation. This is available at www.centrica.com/2022-prelims

## Ofgem consolidated segmental statement

Year ended 31 December 2022

| | | Electricity Generation | | Aggregate Generation | Electricity Supply | | Gas Supply | | Aggregate Supply |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Nuclear | Thermal | Business | Domestic | Non-Domestic | Domestic | Non-Domestic | Business |
| **Total revenue** | **£m** | **1,231.4** | **27.0** | **1,258.4** | **5,904.9** | **2,902.2** | **5,879.7** | **1,124.8** | **15,811.6** |
| Sales of electricity & gas | £m | 1,203.7 | 24.7 | **1,228.4** | 5,900.0 | 2,902.2 | 5,876.0 | 1,124.8 | **15,803.0** |
| Other revenue | £m | 27.7 | 2.3 | **30.0** | 4.9 | — | 3.7 | — | **8.6** |
| **Total operating costs** | **£m** | **(321.6)** | **(20.2)** | **(341.8)** | **(5,799.1)** | **(2,838.2)** | **(5,886.1)** | **(1,048.7)** | **(15,572.1)** |
| Direct fuel costs | £m | (78.0) | (10.2) | **(88.2)** | (3,351.3) | (1,609.0) | (3,832.4) | (828.4) | **(9,621.1)** |
| Direct costs | £m | (206.2) | (6.6) | **(212.8)** | (1,911.9) | (1,023.4) | (1,390.0) | (134.4) | **(4,459.7)** |
| Transportation costs | £m | (85.9) | (1.1) | **(87.0)** | (1,136.6) | (548.5) | (1,200.4) | (99.7) | **(2,985.2)** |
| Environmental and social obligation costs | £m | — | (2.2) | **(2.2)** | (682.0) | (415.6) | (103.4) | — | **(1,201.0)** |
| Other direct costs | £m | (120.3) | (3.3) | **(123.6)** | (93.3) | (59.3) | (86.2) | (34.7) | **(273.5)** |
| Indirect costs | £m | (37.4) | (3.4) | **(40.8)** | (535.9) | (205.8) | (663.7) | (85.9) | **(1,491.3)** |
| **WACOF/E/G (i)** | **£/MWh, P/th** | **(9.1)** | **(259.9)** | **N/A** | **(192.6)** | **(141.1)** | **(160.3)** | **(137.6)** | **N/A** |
| **EBITDA** | **£m** | **909.8** | **6.8** | **916.6** | **105.8** | **64.0** | **(6.4)** | **76.1** | **239.5** |
| DA | £m | (156.7) | (1.7) | (158.4) | (37.5) | (12.3) | (43.0) | (5.2) | **(98.0)** |
| **EBIT** | **£m** | **753.1** | **5.1** | **758.2** | **68.3** | **51.7** | **(49.4)** | **70.9** | **141.5** |
| Volume | TWh, MThms | 8.7 | — | N/A | 17.4 | 11.4 | 2,390.3 | 601.9 | N/A |
| Average customer numbers/ sites | '000s | N/A | N/A | N/A | 5,883.7 | 433.6 | 6,733.6 | 183.4 | N/A |

| | | Domestic | Non-Domestic | Domestic | Non-Domestic | Aggregate Supply Business |
|---|---|---|---|---|---|---|
| **Supply EBIT** | **margin** | **1.2 %** | **1.8 %** | **(0.8%)** | **6.3%** | **0.9%** |
| **Supply PAT** | **£m** | **52.2** | **40.0** | **(37.6)** | **55.0** | **109.6** |
| **Supply PAT** | **margin** | **0.9 %** | **1.4 %** | **(0.6%)** | **4.9%** | **0.7%** |

## 2021 Summarised CSS

Year ended 31 December 2021

| | | Electricity Generation | | Aggregate Generation | Electricity Supply | | Gas Supply | | Aggregate Supply |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Nuclear | Thermal | Business | Domestic | Non-Domestic | Domestic | Non-Domestic | Business |
| Total revenue | £m | 415.5 | 187.3 | 602.8 | 3,410.3 | 1,872.1 | 3,253.7 | 621.9 | 9,158.0 |
| EBIT | £m | (59.5) | 18.2 | (41.3) | (106.9) | (43.4) | 222.2 | 46.1 | 118.0 |

| | | Domestic | Non-Domestic | Domestic | Non-Domestic | Aggregate Supply Business |
|---|---|---|---|---|---|---|
| Supply EBIT | margin | (3.1)% | (2.3)% | 6.8 % | 7.4 % | 1.3 % |
| Supply PAT | £m | (85.8) | (35.1) | 178.4 | 37.1 | 94.6 |
| Supply PAT | margin | (2.5)% | (1.9)% | 5.5 % | 6.0 % | 1.0 % |

**Notes:**

(i) WACOF/E/G is calculated using Volumes to 2 decimal places.

# Additional Information – Explanatory Notes (Unaudited)

### Definitions and reconciliation of adjusted performance measures

Centrica's 2022 Preliminary Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted revenue, adjusted gross margin, adjusted operating profit, adjusted earnings and adjusted cash flow have been defined and reconciled separately in notes 2, 5 and 10 to the Financial Statements where further explanation of the measures is given. The Group has updated in the year its net debt adjusted performance measure to adjusted net debt, as the net debt adjusted performance measure now includes a loan of £400 million provided to the UK registered pension schemes. Additional performance measures are used within these Financial Statements to help explain the performance of the Group and these are defined and reconciled below. Further information has been provided to help readers when reconciling between different parts of the consolidated Group Financial Statements, and when reconciling cash flow measures to the Group Cash Flow Statement.

## Adjusted EBITDA

Adjusted EBITDA is a business performance measure of operating profit, after adjusting for depreciation and amortisation. It provides a performance measure in its own right, and provides a bridge between the Income Statement and the Group's key cash metrics. Further, a reconciliation excluding Spirit Energy disposed assets is provided.

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| **Group operating (loss)/profit** | I/S | **(240)** | 954 | |
| Exceptional items included within Group operating loss/profit and certain re-measurements before taxation | 6 | **155** | (1,247) | |
| Certain re-measurements before taxation | 6 | **3,393** | 1,241 | |
| Share of (profits)/losses of joint ventures and associates, net of interest and taxation [(i)] | I/S | **(92)** | 103 | |
| Depreciation and impairments of PP&E [(i)] | 5 | **598** | 583 | |
| Amortisation, write-downs and impairments of intangibles [(i)] | 5 | **179** | 216 | |
| **Group total adjusted EBITDA** | | **3,993** | 1,850 | 116 % |

(i) These line items relate to business performance only.

### Adjusted EBITDA excluding Spirit Energy disposed assets

| Year ended 31 December | 2022 £m | 2021 £m | Change |
|---|---|---|---|
| **Group total adjusted EBITDA** | **3,993** | 1,850 | |
| less disposed assets adjusted EBITDA (including associated hedges) | **(485)** | (803) | |
| **Adjusted EBITDA excluding Spirit Energy disposed assets** | **3,508** | 1,047 | 235 % |

### Adjusted operating profit excluding Spirit Energy disposed assets

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| **Group total adjusted operating profit** | I/S | **3,308** | 948 | |
| less disposed assets adjusted operating profit (including associated hedges) | | **(485)** | (556) | |
| **Adjusted operating profit excluding Spirit Energy disposed assets** | | **2,823** | 392 | 620 % |

The below table shows how adjusted EBITDA reconciles to free cash flow:

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Adjusted EBITDA** | | **3,993** | 1,850 |
| Group operating (loss)/profit including share of joint ventures and associates, from exceptional items and certain re-measurements | I/S | **(3,548)** | 6 |
| Share of profits of joint ventures and associates, net of interest and taxation, from exceptional items and certain re-measurements | I/S | **(1)** | — |
| Depreciation, amortisation, write downs, impairments and write-backs, from exceptional items and certain re-measurements | I/S | **(207)** | (1,214) |
| Loss on disposals | C/F | **343** | 28 |
| (Decrease)/increase in provisions | C/F | **(1,903)** | 2,434 |
| Cash contributions to defined benefit schemes in excess of service cost income statement charge | C/F | **(184)** | (388) |
| Employee share scheme costs | C/F | **10** | 12 |
| Unrealised losses/(gains) arising from re-measurement of energy contracts | C/F | **4,095** | (1,159) |
| Exceptional charges reflected directly in operating profit | C/F | **—** | 12 |
| Net movement in working capital | C/F | **(656)** | 246 |
| Taxes paid | C/F | **(574)** | (140) |
| Operating interest paid | C/F | **(30)** | — |
| Payments relating to exceptional charges in operating profit | C/F | **(24)** | (76) |
| **Net cash flow from operating activities** | | **1,314** | 1,611 |
| Purchase of businesses, net of cash acquired | C/F | **12** | (14) |
| Sale of businesses | C/F | **92** | 70 |
| Purchase of property, plant and equipment and intangible assets | C/F | **(371)** | (420) |
| Sale of property, plant and equipment and intangible assets | C/F | **11** | 36 |
| (Investment in)/disposal of joint ventures and associates | C/F | **(18)** | 2 |
| Dividends received from joint ventures and associates | C/F | **60** | 2 |
| UK Pension deficit payments | 5 | **214** | 368 |
| Movements in variation margin and collateral | 5 | **1,173** | (481) |
| **Free cash flow from continuing operations** | 5 | **2,487** | 1,174 |

## Adjusted earnings attributable to shareholders excluding Spirit Energy disposed assets

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| **Adjusted earnings attributable to shareholders** | I/S | **2,050** | 237 | |
| less disposed assets adjusted earnings attributable to shareholders (including associated hedges) | | **(45)** | (75) | |
| **Adjusted earnings attributable to shareholders excluding Spirit Energy disposed assets** | | **2,005** | 162 | 1,138 % |

## Adjusted basic earnings per share excluding Spirit Energy disposed assets

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| **Adjusted earnings attributable to shareholders excluding Spirit Energy disposed assets (£m)** | | **2,005** | 162 | |
| Weighted average of ordinary shares in issue during the period (million shares) | 10 | **5,869** | 5,836 | |
| **Adjusted basic earnings per share excluding Spirit Energy disposed assets** | | **34.2p** | 2.8p | 1,121 % |

## Definitions and reconciliation of adjusted performance measures

### Loss on disposals

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Loss on disposals | C/F | 343 | 28 |
| Less: Exceptional loss on disposals | 6 | (362) | (31) |
| **Profit on disposals relating to business performance** | | (19) | (3) |

### Group net investment

With an increased focus on cash generation, capital discipline and managing net debt/cash, Group net investment provides a measure of the Group's capital expenditure from a cash perspective and allows the Group's capital discipline to be assessed.

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| Capital expenditure (including small acquisitions) [(i)] | | 377 | 434 | |
| Net disposals [(ii)] | | (103) | (108) | |
| Group net investment | | 274 | 326 | (16)% |
| Dividends received from joint ventures and associates | C/F | (60) | (2) | |
| Interest received | C/F | (46) | (2) | |
| Net purchase of securities | C/F | 398 | 3 | |
| Net cash flow used in continuing investing activities | C/F | 566 | 325 | 74 % |

(i) Capital expenditure is the net cash flow on capital expenditure, purchases of businesses and investments in joint ventures and associates (less than £100 million). See table (a).

(ii) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, and disposals of investments in joint ventures and associates. See table (b).

Group net investment is capital expenditure including acquisitions less net disposals. It excludes cash flows from investing activities not associated with capital expenditure as detailed in the table above.

### (a) Capital expenditure (including small acquisitions)

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| Purchase of property, plant and equipment and intangible assets | C/F | 371 | 420 | |
| Purchase of businesses, net of cash acquired | C/F | (12) | 14 | |
| Investment in joint ventures and associates | C/F | 18 | — | |
| Less: material acquisitions (>£100 million) | | — | — | |
| **Capital expenditure (including small acquisitions)** | | 377 | 434 | (13)% |

### (b) Net disposals

| Year ended 31 December | Notes | 2022 £m | 2021 £m | Change |
|---|---|---|---|---|
| Sale of businesses | C/F | (92) | (70) | |
| Sale of property, plant and equipment and intangible assets | C/F | (11) | (36) | |
| Disposal of joint ventures and associates | C/F | — | (2) | |
| **Net disposals** | | (103) | (108) | (5)% |

## Definitions and reconciliation of adjusted performance measures

The following tables provide additional information to help readers when reconciling between different parts of the consolidated Group Financial Statements, and the Group Cash Flow Statement.

### Reconciliation from free cash flow to change in adjusted net cash/(debt)

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Free cash flow from continuing operations** | 5 | **2,487** | 1,174 |
| **Free cash flow from discontinued operations** | 5 | **—** | 2,588 |
| **Group total free cash flow** | 5 | **2,487** | 3,762 |
| Financing interest paid | C/F | **(172)** | (233) |
| Interest received | C/F | **46** | 2 |
| UK Pension deficit payments | 5 | **(214)** | (368) |
| Payments for own shares | C/F | **(5)** | — |
| Share buyback programme | C/F | **(43)** | — |
| Distributions to non-controlling interests | C/F | **(273)** | — |
| Dividends paid | C/F | **(59)** | — |
| Proceeds from sale of forfeited share capital | C/F | **—** | 1 |
| Movements in variation margin and collateral | 5 | **(1,173)** | 481 |
| **Cash flows affecting adjusted net cash/debt** | | **594** | 3,645 |
| Discontinued operations non-cash movements in adjusted net cash/debt | | **—** | 32 |
| Non-cash movements in adjusted net cash/debt | | **(75)** | 1 |
| **Change in adjusted net cash/debt** | | **519** | 3,678 |
| **Opening adjusted net cash/(debt)** | 11 | **680** | (2,998) |
| **Closing adjusted net cash** | 11 | **1,199** | 680 |

### Reconciliation of adjusted net cash to unadjusted net cash

Adjusted net cash/(debt) is a business performance measure used by management to assess the underlying indebtedness of the business.

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Adjusted net cash** | 11 | **1,199** | 680 |
| Less current and non-current securities | 11 | **(525)** | (156) |
| Less sub-lease assets | 11 | **(2)** | (2) |
| **Unadjusted net cash** | | **672** | 522 |

### Payments relating to exceptional charges in operating costs

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Restructuring costs incurred during the year and utilisation of prior year liabilities | | **24** | 76 |
| Payments relating to exceptional charges in continuing operating costs | C/F | **24** | 76 |

## Definitions and reconciliation of adjusted performance measures

### Depreciation, amortisation, write-downs, impairments and write-backs

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| **Movement from depreciation, amortisation, write-downs, impairments and write-backs, from exceptional items included in the Group Cash Flow Statement** | 6 | **(207)** | (1,214) |
| Made up of: | | | |
| Write-back of E&P assets | 6 | **–** | (598) |
| Write-back of power assets | 6 | **(207)** | (747) |
| Impairment of Centrica Business Solutions | 6 | **–** | 123 |
| Impairment of property | 6 | **–** | 8 |
| **Movement from depreciation, amortisation, write-downs, impairments and write-backs, from business performance included in the Group Cash Flow Statement** | | **777** | 799 |
| Made up of: | | | |
| Business Performance PP&E depreciation | 5 | **510** | 580 |
| Business Performance PP&E impairments | 5 | **88** | 3 |
| Business Performance intangibles amortisation | 5 | **159** | 188 |
| Business Performance intangibles impairments and write-downs | 5 | **20** | 3 |
| Business Performance E&E write-downs | 5 | **–** | 25 |
| **Movement from depreciation, amortisation, write-downs, impairments and write-backs included in the Group Cash Flow Statement** | | **570** | (415) |

### Reconciliation of receivables and payables to Group Cash flow Statement

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Receivables opening balance | B/S | **6,114** | 2,946 |
| Less receivables closing balance | B/S | **(8,579)** | (6,114) |
| Payables opening balance | B/S | **(7,633)** | (3,836) |
| Less payables closing balance | B/S | **10,341** | 7,633 |
| Net increase in receivables and payables | | **243** | 629 |
| Non-cash changes, and other reconciling items: | | | |
| Share buyback liability | | **(207)** | – |
| Transferred to held for sale and business disposals | | **(22)** | (29) |
| Movement in capital creditors | | **6** | 10 |
| Movement in ROCS and emission certificate intangible assets | | **(67)** | (8) |
| Other movements (including foreign exchange movements) | | **(16)** | 5 |
| Non-cash charges, and other reconciling items | | **(306)** | (22) |
| Movement in trade and other receivables, trade and other payables and contract related assets relating to business performance | C/F | **(63)** | 607 |

### Pensions

| Year ended 31 December | Notes | 2022 £m | 2021 £m |
|---|---|---|---|
| Cash contributions to defined benefit schemes in excess of service cost income statement charge | C/F | **(184)** | (388) |
| Ordinary employer contributions | 14 | **50** | 52 |
| UK Pension deficit payments | 14 | **214** | 368 |
| Contributions by employer in respect of employee salary sacrifice arrangements | 14 | **21** | 20 |
| Total current service cost | 14 | **(105)** | (105) |
| Past service credit | 14 | **–** | 1 |
| Termination benefit | 14 | **4** | 52 |

# Disclosures

## Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities. This announcement contains certain forward-looking statements. Forward-looking statements can be identified by the use of terms such as 'may', 'should', 'will', 'continue' or similar words. Forward-looking statements appear in a number of places throughout this announcement and include statements regarding the current intentions, beliefs or expectations of the Directors, Centrica and/or the Group concerning, among other things, the financial condition, goals and commitments, prospects, growth, strategies, results, operations and businesses of Centrica.

Although we make such statements based on assumptions that we believe to be reasonable, by their nature, these forward-looking statements are subject to risk and uncertainties because they relate to, and may be impacted by, events and circumstances that will occur in the future which are beyond Centrica's ability to control or estimate precisely. There can be no assurance that Centrica's actual future results, financial condition, performance, operations and businesses will not differ materially from those express or implied in the forward-looking statements due to a variety of factors, including, but not limited to, those set out in this announcement and the 'Our Principal Risks and Uncertainties' section of the Strategic Report in our Annual Report and Accounts. Readers are cautioned that these forward-looking statements are not guarantees or predictions of Centrica's future performance and undue reliance should not be placed on them when making investment decisions.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

When considering the information contained in, or referred to in this announcement, please note that profit and inventory from Rough operations are reported under Centrica Storage Limited for presentational purposes only. Centrica Storage Limited does not produce, supply or trade gas, except to the extent necessary for the efficient operation of the storage facility. In accordance with the Gas Act 1986, such production, supply and trading of gas is carried out wholly independently of Centrica Storage Limited by other Centrica group companies.

## For further information

Centrica will hold its 2022 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 16 February 2023. There will be a live audio webcast of the presentation and slides. Please register to view the webcast at:

https://webcasts.centrica.com/centrica127

You may also listen via conference call. To register for this call and to receive a unique caller reference number, visit:

https://webcasts.centrica.com/centrica127/vip_connect

An archived webcast and full transcript of the presentation and question and answer session will be available on the Centrica website by Monday 20th February 2023.

## Enquiries

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|---|---|---|
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## Financial calendar

| | |
|---|---|
| Ex-dividend date for 2022 final dividend | Thursday 8 June 2023 |
| Record date for 2022 final dividend | Friday 9 June 2023 |
| Annual General Meeting (AGM) | Tuesday 13 June 2023 |
| Payment of 2022 final dividend | Thursday 20 July 2023 |

For more information on Centrica's financial calendar please visit: https://www.centrica.com/investors/financial-calendar/

## Registered office

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