

Satisfying the changing needs of our customers

Annual Report and Accounts 2017



centrica

Group Highlights

Group Financial Summary
(Year ended 31 December 2017)

Group Key Operational Performance Indicators

Group revenue

£28.0bn

2016: £27.1bn
▲3%

Return on average capital employed (ROACE)

14%

2016: 16%
▼2ppt

Total customer account holdings – Consumer ('000)⁽¹⁾⁽²⁾

25,316

2017

▼5%

26,668

2016

Adjusted operating profit

£1,252m

2016: £1,515m
▼17%

Statutory operating profit

£486m

2016: £2,486m
▼80%

Total customer account holdings – Business ('000)⁽²⁾

1,273

2017

▼6%

1,352

2016

Adjusted earnings

£698m

2016: £895m
▼22%

Statutory profit for the year attributable to shareholders

£333m

2016: £1,672m
▼80%

Total customer gas consumption (mmth)

11,630

2017

▼3%

12,022

2016

Adjusted basic earnings per share (EPS)

12.6p

2016: 16.8p
▼25%

Statutory basic earnings per share

6.0p

2016: 31.4p
▼81%

Total customer electricity consumption (GWh)

133,869

2017

▼8%

144,810

2016

Adjusted operating cash flow

£2,069m

2016: £2,686m
▼23%

Statutory net cash flow from operating activities

£1,840m

2016: £2,396m
▼23%

Direct Group headcount⁽³⁾

33,138

2017

▼9%

36,494

2016

Group net debt

£2,596m

2016: £3,473m
▼25%

Net exceptional charge after taxation included in statutory profit

£476m

2016: £27m (credit)

Lost time injury frequency rate per 200,000 hours worked

0.36[†]

2017

▼20%

0.30

2016

(1) 2016 account holdings have been reduced by 55,000 following data assurance activity of our analytical system.

(2) Consumer customer account holdings now include Connected Home cumulative hubs installed. Business customer account holdings now include Distributed Energy & Power (DE&P) active customer sites. 2016 figures restated to be consistent.

(3) Direct Group headcount excludes contractors, agency and outsourced staff.

 **Read more about our Key Performance Indicators**
Pages 30 to 31

Assurance We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement over 22 metrics highlighted with the symbol '†' throughout our Annual Report and Accounts 2017.

We are an energy and services company.

Everything we do is focused on satisfying the changing needs of our customers.



Centrica Consumer

Read more about Centrica Consumer
Pages 18 to 23



Centrica Business

Read more about Centrica Business
Pages 24 to 29



Explore online

Visit our website to find out more:
centrica.com/ar17



Social media

Follow us and join the conversation

Contents

Strategic Report

- 2 Centrica at a Glance
- 4 Chairman's Statement
- 6 Group Chief Executive's Statement
- 10 Our Strategy
- 12 Our Business Model
- 14 The Strategic Repositioning of Centrica
- 16 Customer Focus
- 18 Centrica Consumer
- 24 Centrica Business
- 30 Key Performance Indicators
- 32 Responsible Business
- 39 Our View on Taxation
- 40 Business Review
- 48 Group Financial Review
- 52 Our Principal Risks and Uncertainties

Governance

- 64 Board of Directors
- 66 Senior Executives
- 67 Directors' and Corporate Governance Report
- 78 Remuneration Report
- 90 Remuneration Policy
- 98 Other Statutory Information

Financial Statements

- 102 Independent Auditors' Report
- 110 Group Income Statement
- 111 Group Statement of Comprehensive Income
- 112 Group Statement of Changes in Equity
- 113 Group Balance Sheet
- 114 Group Cash Flow Statement
- 115 Notes to the Financial Statements
- 190 Company Financial Statements
- 192 Notes to the Company Financial Statements
- 201 Gas and Liquids Reserves (Unaudited)
- 202 Five Year Summary (Unaudited)
- 203 Ofgem Consolidated Segmental Statement

Other Information

- 215 Shareholder Information
- 216 Additional Information – Explanatory Notes (Unaudited)
- 218 Responsible Business – Performance Measures
- IBC Glossary

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the Strategic Report are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 48 to 51. See also notes 2, 4 and 10 to the Financial Statements on pages 117 and 118, 121 to 126 and 134 and 135, for further details of these adjusted performance measures. In addition see pages 216 and 217 for an explanation and reconciliation of other adjusted performance measures used within this document.

Centrica at a Glance

Our purpose

To provide energy and services to satisfy the changing needs of our customers.

Our Group structure

Centrica Consumer

UK Home

Supplying competitive and reliable energy to residential customers in the UK, and providing innovative services and solutions that help to keep their homes warm and working.

Ireland


Supplying energy and energy services to residential and business customers across Ireland.

North America Home

Supplying competitive and reliable energy and providing home services to customers in North America.

Connected Home

Helping customers get more from their homes, providing automation, energy management and peace of mind through our award-winning range of Hive connected home devices, software and services.

 [Read more about Centrica Consumer](#)
Pages 18 to 23 and 41 to 42



Centrica Business

UK Business

Supplying energy and services to a diverse range of business customers in the UK, using a variety of products tailored to meet their differing needs and help them more effectively manage their energy consumption and costs.

North America Business

Supplying competitive and reliable electricity and natural gas commodity and energy services to retail and wholesale customers across North America.

Distributed Energy & Power


Providing industrial and commercial customers with the ability to use energy more intelligently, giving them the tools to generate and manage their energy usage under the Centrica Business Solutions brand.

Energy Marketing & Trading

Providing risk management and wholesale market access for the Group, building on strong cross-commodity trading capabilities and a global presence in LNG.

Central Power Generation

Generating power from our larger gas fired power stations and our 20% interest in eight nuclear power stations in the UK.

 [Read more about Centrica Business](#)
Pages 24 to 29 and 43 to 45



Exploration & Production

Through Spirit Energy we are targeting a sustainable, self-financing Exploration & Production (E&P) business, producing around 50 million barrels of oil equivalent a year, focused on the North Sea (the UK, the Netherlands, Norway and Denmark).

Centrica Storage

The Group operates the Rough gas field in the UK North Sea, which is being converted from a strategic storage asset to a producing asset before decommissioning.

 [Read more about E&P and Centrica Storage](#)
Pages 46 to 47



Group snapshot

The world of energy is changing and, with our chosen businesses, distinctive propositions and current capabilities, Centrica is well placed to deliver for its customers, shareholders and for society. We aim to be a good corporate citizen and an employer of choice.

Our areas of focus for growth are Energy Supply, Services, Connected Home, Distributed Energy & Power, Energy Marketing & Trading. We also have a material Exploration & Production division.


We supply energy and services to over 25 million customer accounts mainly in the UK, Ireland and North America through strong brands such as British Gas, Direct Energy and Bord Gáis Energy, all supported by around 15,000 engineers and technicians. We are focused on delivering high levels of customer service, engagement and loyalty.


Technology is increasingly important in the delivery of energy and services to our customers. We are developing innovative products, offers and solutions, underpinned by investment in technology. In 2017 we announced the creation of a new venture 'Centrica Innovations' to identify, incubate and accelerate new technologies and innovations.

At the end of 2017, phase one of Centrica's repositioning was complete. We have simplified our business and portfolio. We now have just three divisions – Centrica Consumer, Centrica Business and Exploration & Production. Our asset portfolio has been materially repositioned.

We delivered our £750 million per annum cost efficiency programme three years early and met our net debt targets. We are seeing encouraging signs of progress in our customer-facing businesses. In our next phase to 2020, we will further shift

investment towards those businesses and focus on performance delivery, specifically growing gross margin and driving a further £500 million per annum of cost efficiencies, while maintaining financial discipline.

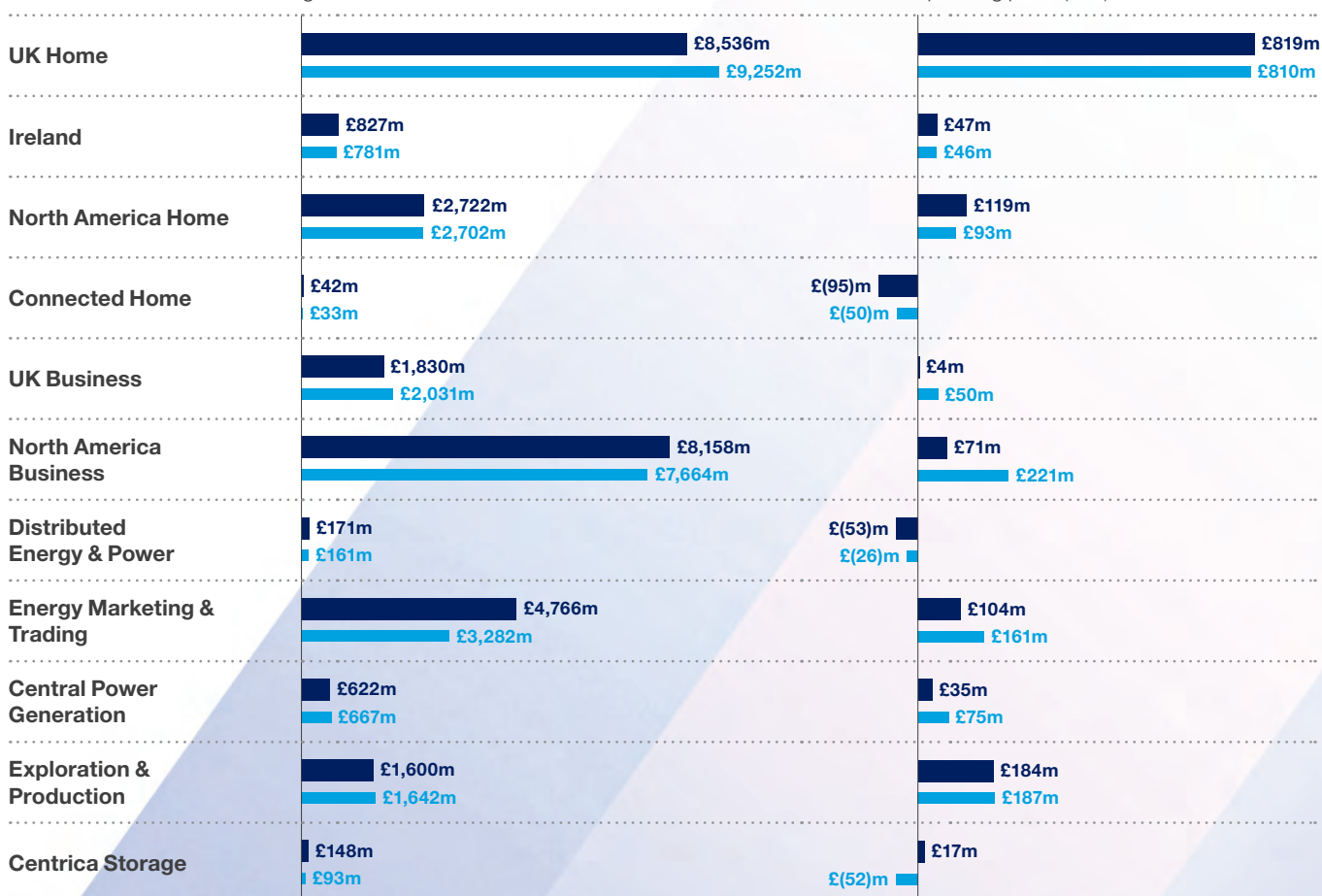
 [Read more about Our Strategy](#)
Pages 10 to 11

 [Read more about Our Business Model](#)
Pages 12 to 13


Our performance


Breakdown of gross revenue

Breakdown of adjusted operating profit/(loss)



 2017
 2016

 [Read more in the Business Review](#)
Pages 40 to 47

 [Read more in the Group Financial Review](#)
Pages 48 to 51

Chairman's Statement

2017 was a difficult year for Centrica and, to my deep regret, for our shareholders.

We are in the midst of a necessarily ambitious transition: from a diversified company, back to its core; to a customer-focused provider of value-added services and solutions; to a digital partner, providing data-led insights into the whole energy experience of our customers; to an offering that provides products, expertise and guidance, not simply molecules and electrons; to a business model in which we can control our own destiny to a far greater degree than in the past.

This would be a tough undertaking even in a benign and supportive political environment. As it is, the pressures we have faced from this quarter in our important home market have raised the degree of competitive difficulty and created an air of uncertainty that weighed heavily on our share price in 2017. I am disappointed that the many actions we have taken to help vulnerable customers, bring old tariff models to an end and reward loyalty have received little recognition from politicians.

Our response has been to strive to make Centrica more resilient to our external environment. This requires a fundamental repositioning of our organisation, processes and systems, integrating a hitherto fragmented structure, always in the service of our customers. This must all necessarily be executed at pace, because to stand still in our fast-moving sector is to invite obsolescence, and because our employees understandably want to get to the other side as quickly as possible. There is a palpable desire within Centrica to find new ways of accelerating cultural change, building innovative capabilities and better meeting our customers' expectations at a lower cost.

Accordingly, the business is being rebuilt on a firm foundation. Underlying everything, and essential to long-term value creation, has been the considerable work done by Iain Conn and his senior leadership team in focusing on our core businesses of energy supply and services, and the propositions which our customers expect today and desire tomorrow.

All the while ensuring that the fundamentals of change – our purpose, our new values and new ethical standards – are fresh, relevant and deep rooted, with safety, compliance and conduct at the top of our agenda.

The strategic transition is being delivered well and all of our declared financial targets have been met. But there have also been areas of weakness, particularly in our North American power book during the second half of the year. The impact of competitive and pricing pressures here was exacerbated by a seasonally weak performance from our North American gas business and the discovery of an historical accounting issue.

Our control systems are being enhanced and improved and the accounting issue was verified as having been a one-off. But not before deep damage had been done to confidence in the Company and its prospects, with commensurate harm to our share price layered on top of the impacts of the current political uncertainty. There was an understandably strong reaction from investors and doubts emerged about the detail and deliverability of the Centrica strategy.

I hope that our Executive team went a long way to addressing these concerns at the Preliminary Results in February. They reminded our stakeholders that the first phase of our strategic repositioning has been successfully completed. They reinforced the point that our Consumer division remains stable and profitable, with the prospect of real growth, and that there is further scope for cost efficiency gains.

They offered explanations, not excuses, for the performance issues in our Business division. Above all, they sought to reassure investors that, through our changing portfolio, cost efficiency and divestment options, Centrica has a strengthening resilience to uncertainty.

As ever, we recognise that the good governance of the Company is essential to the delivery of our strategy. So, in that spirit, let me offer a window into the business of your Board in 2017: the issues which will dominate our agendas in the coming year and our plans to build further on the new governance approaches to risk mapping, stakeholder engagement and board development that we have implemented in recent years.

The first and key question we revisit at each meeting, and in the round each October, is whether we are pursuing the right strategy. It can be tempting to alter course in the face of strong headwinds. And this has been the subject of renewed challenge by your Board since our trading update in November.

Our strong and shared contention is that strategy is not about short-term adjustments; it is about staying true to our purpose and aligning ourselves with the fundamental forces – consumer power and choice, decentralisation and digitisation in particular – that are changing the energy world, affecting both our customers and the planet. So, we believe the answer to be clear. Nothing has happened to invalidate the strategy which we set out in 2015.

“ Our vision is clear, our determination is unshakeable, our governance is robust and we are confident that we will return Centrica to real and sustainable growth. ”

Rick Haythornthwaite
Chairman



In 2018, our focus is very much on strategy delivery and performance management. We are concentrating on those things which we can control and we are prioritising the performance of our existing businesses over expansion. We are confident that the shape of the business we now have is the right one to deliver growth over time and achieve our strategic goals.

Meanwhile, we have continued to revise and refresh our approach to risk management to ensure that we have a stronger framework in place as we pursue our strategic objectives. In 2017, we focused on embedding our redesigned process. The risk management framework makes a positive contribution to good decision-making and business growth and will be even stronger for the lessons learnt last year. Your Board discussed all aspects of our perceived risk exposure, with particular emphasis on process safety, political pressures, strategic delivery, cyber-security, capability development and leadership succession.

Inextricably linked to leadership succession is our approach to the attraction and retention of key people, a component of which relates to their remuneration. This year we are putting a new Remuneration Policy to the vote at our Annual General Meeting and have sought, through extensive dialogue, to understand and reflect the evolving consensus of the body of our investor base. We recognise in our recommended Policy an increasing investor discomfort with reward for input if and when performance outcomes are lagging.

So, we are proposing that annual bonuses should be more closely tied to shareholder experience, regardless of the quality and intensity of the Executive team efforts. Longer-term reward remains very much aligned to the fortunes of shareholders, with deferred stock-based schemes ensuring that only sustained performance and growth is rewarded. But to strengthen this link further, we are proposing to add a Total Shareholder Return measure to the Long Term Incentive Plan. More details are set out in the revised Remuneration Policy on pages 90 to 97 of this report.

Throughout 2017, our Executive team worked tirelessly to deliver the first phase of the strategic transformation and, in the eyes of your Board, exceeded our expectations in their ability to close difficult divestments, navigate complex changes in the organisation in a very sensitive manner and bring home promised efficiency gains three years ahead of schedule. But that good strategic work was overshadowed by the disappointed expectations of short-term performance and the impact of UK government pressure, with the net result of a significant fall in the value of your Company.

Our current Remuneration Policy would have resulted in significant annual bonuses, though considerably less than last year, even after adjustment for the effects of weather and commodity prices. The impact of the painful shareholder experience of 2017 would have had little impact on the calculated outcome. The newly proposed Remuneration Policy goes some way to redressing this mismatch. But, pending its adoption, your Board decided that discretion should be exercised under the current policy to reflect recent events, even though a significant portion of the impact was beyond the control of the Executive team.

Accordingly, no annual bonuses or pay rises were awarded to the Executive Directors for 2017 and, provided the new Remuneration Policy is adopted, stock awards under the forthcoming Long Term Incentive Plan will be reduced. This reinforces the broad and collective accountability of the Executive leadership.

In other matters, your Board spent much time over the past year ensuring that the business has the right teams in place with the right leadership style to achieve our strategic objectives. The future of our Company depends on having the best talent and on the motivation of that talent. Once again, our people have surpassed my expectations and I would like to thank them for all their hard work.

But we, as the leaders of this business, must do more to support our own people. Employee engagement levels fell again in 2017 as the transition process continued. Our Gender Pay Statement showed that women at Centrica are paid on average 12% less than men, although we have a strong track record of equal pay for equal work. This gap can be explained in part by the legacy of traditionally male-dominated field engineering roles in our business. But it must be closed and we are committed to doing so.

So, I have asked our Non-Executive Director, Joan Gillman, to undertake a review of key employee matters and how we might assure ourselves that the voice of our people is being heard loud and clear in the boardroom. Joan has wide-ranging experience in the media and communications sector, with a very evident empathy towards the importance of engagement, teamwork and diversity. Her review will allow her to bring more Centrica-specific content to her boardroom contributions and challenge.

We bade farewell to Lesley Knox who stepped down after six years of much appreciated service as a Non-Executive Director, for which she has our sincere gratitude. We are in the process of seeking a successor who will bring, not only digital insights into customer segmentation and journeys, but also the voice of the customer into the boardroom, ensuring that we avoid circularity and insularity of thinking.

To that end, we in particular need to focus more on our weakest performance if we are truly to improve customer experience levels and open up the powerful possibility of our customers becoming our advocates. This is the most reliable route to dealing with the trust gap that confronts business as a whole and the energy supply sector in particular. As Board members, we all have personal experience of handling complaints from customers who contact us directly. We cannot help but be affected by what we sometimes hear. But the flow is still too anecdotal to be helpful in holding the Executive team to account on its drive to improve service. So, once recruited, I will be asking our new Non-Executive Director to consider how best to keep our boardroom dialogues deeply connected to our customers, their needs and our responses.

In summary, what we are trying to achieve at Centrica is not easy. In fact, it is one of the most ambitious changes attempted by any company in one of the most competitive and challenging sectors of the economy. But we are not doing this out of ambition. We are doing this because it is absolutely necessary for the future of this business that we adapt to the changes in the energy landscape and that we find new ways to meet the changing needs of our customers.

We believed this in 2015 when we set out our new strategic direction. We believe it now. Our future is in the hands of our customers and, by extension, our own hands. We may occasionally stumble on the road and be jostled by powerful external forces. But our vision is clear, our determination is unshakeable, our governance is robust and we are confident that we will return Centrica to real and sustainable growth.

Rick Haythornthwaite
Chairman

21 February 2018

 [Read more about Corporate Governance](#)
Pages 67 to 77

Group Chief Executive's Statement

2017 was a challenging year for Centrica. Our performance in the second half was weak, particularly in Business energy supply.

This, combined with uncertainty around our future prospects in UK energy supply, significantly amplified by the Prime Minister's announcement in October that the UK Government would pursue a market-wide price cap of the Standard Variable Tariff (SVT) and other default tariffs, resulted in a significant fall in our share price in 2017, particularly over the fourth quarter.

Some of the drivers were clearly beyond our control. But clearly we regret the outcome and the impact it has had on our shareholders and on our employees. I am determined to restore shareholder value and confidence. The underlying trends driving our strategy are clear, as are the distinctive capabilities we have to benefit from them. We are committed to delivering attractive returns and growth over the medium term. Our focus today is on performance delivery and financial discipline – on demonstrating top line growth as we deliver improved service and new propositions for our customers, and driving efficiency as hard as possible to underpin our competitiveness.

Although we delivered our 2017 published targets in terms of operating cash flow, cost efficiency and headcount reduction, capital discipline and net debt, our financial results were disappointing. Adjusted operating profit at £1.25 billion was down 17%, earnings were down 22%, at £698 million, equivalent to 12.6 pence per share. Adjusted operating cash flow was £2.07 billion. EBITDA of £2.14 billion was down 9%.

We delivered a disappointing result in our North America Business operation. This was both in terms of the performance of our power supply book and from a charge relating to historical revenue recognition in one of our billing systems going back to 2013. Performance in UK Business energy supply was also poor. Adjusted operating profit for Centrica Business as a whole was down 67%.

However, Centrica Consumer delivered robust performance with adjusted operating profit down only 1% despite the impacts of warm weather, the UK Government pre-payment tariff cap, competitive intensity and investing for growth.

Despite the setbacks, the foundations of our businesses remain strong. We believe our business model is – and will continue to be – resilient, even under the pressures we face. Our strategy is clear. It is founded on an analysis of market trends and sources of growth, on our own capabilities and the efficiency necessary to pursue them profitably.

Centrica is an energy and services company. Our purpose is 'to provide energy and services to satisfy the changing needs of our customers'. This is the core of the Company and we have been supplying energy and services to customers since 1812. We are re-emphasising and returning to that core. However, it is not 1812, the needs of customers are indeed changing, and as we deliver for them the propositions we offer must change too.

Globally, the energy system is becoming more decentralised, customers are becoming more powerful because of increased choice, and technology is accelerating the pace of change. These trends, which we identified when we launched our new strategy in 2015, are even clearer today and are playing out in line with our views at the time. We are in step with where the energy world is going and the services which our customers desire. We do not believe that anything has happened since 2015 to invalidate our strategy or the core strengths of the Company.

As a result, Centrica is focusing more investment on the customer-facing businesses. We are also becoming simpler as an organisation. We now have only three divisions, Centrica Consumer, Centrica Business and Exploration & Production (E&P). Each has a clear participation strategy and strategic framework. The reason we have established Group-wide Consumer and Business divisions is that we have found that customer needs are very similar globally, and they are seeking more than simply energy supply.

“ Our focus today is on performance delivery and financial discipline – on demonstrating top line growth as we deliver improved service and new propositions for our customers and driving efficiency as hard as possible to underpin our competitiveness. ”

Iain Conn
Group Chief Executive



What we are doing is not a radical departure from our roots; it is a natural extension of who we are and what we are good at. Through installing boilers, heating systems and their controllers we have always been in the 'home energy management' business. Our development of Hive, starting with the digital thermostat and the intelligent boiler, is the next phase in the evolution of home energy management and a direct extension of our in-home services business.

We are finding that consumers want these propositions and are willing to pay for them. We are also finding that many customers value receiving these services from the same provider as their energy supply. The same principles apply to our business customers. The new propositions and services we have developed are not a distraction or somehow unrelated to our legacy businesses. They are at the heart of what our legacy offerings have to incorporate and what the most valuable customer segments are demanding.

In our Consumer division, revenues have been stable and unit gross margins are attractive. We did see a fall of 1.35 million customer accounts during 2017. We have made active choices on which channels and customer segments we are seeking to engage, retain and serve. We do not like losing any customers but most of these customer accounts generated very low gross margin and were loss-making at the operating profit level.

In contrast, while we have seen some losses in higher value accounts, in 2017 we were successful in encouraging a net approximately 700,000 UK energy accounts from the SVT to our fixed-term tariffs. We have seen material growth in new services and relationships. We saw 18% growth in protection plans in the US. In Connected Home we saw cumulative installed hubs grow by 71% to 900,000 over 2017. We exceeded our target of 1.5 million products sold. Connected Home continues to grow in all of our energy supply geographies, and our first international partnership with Eni gas e luce in Italy will see its full commercial launch in April.

Our Local Heroes scheme has grown rapidly from its launch at the beginning of last year. We now have 7,000 tradespeople signed up, backed by our guarantee, and we have now completed over 25,000 jobs. This on-demand offer continues to accelerate and it complements our own contract relationships through British Gas.

We have also seen the number of British Gas services accounts deliver the first year of stability since 2010. Accounts grew by 77,000 in the second half, reversing the fall we saw in the first half. In addition, 700,000 customers have so far signed up for British Gas Rewards, enabling us to enhance the relationship and proposition for our loyal customers in combination with our other offers.

In our customer businesses, our goal is to focus on value, not volume, retaining and engaging our customers while continuing to drive costs down to maintain margins. This is what we will concentrate on across the Centrica Consumer portfolio as we extend the propositions we can offer our customers with the goal also to stabilise and grow the total number of relationships we have. We believe we can continue to make progress, even in the face of further price regulation in the UK.

As we have made clear, we do not support price controls in competitive retail energy markets and we believe they will not ultimately benefit customers. We believe price caps will reduce competition and choice, and prices tend to ultimately converge around the cap level. Instead, to improve the market our focus is on increasing customer engagement, driving cost efficiency, improving service levels, on rewarding loyalty and on delivering propositions that customers want.

Last year, we announced a package of actions and proposed measures to reform the UK energy market for the long term and really benefit customers, without the need for price controls. At its heart are our decision to withdraw the British Gas SVT and our call for the UK Government and the regulator to ban this sort of rolling tariff across the industry. We will introduce new, attractive fixed-term propositions including fixed-price, online only and bundled tariffs. We will introduce a new default tariff and increase choice to try to avoid people going onto a default tariff in the first place. Allied to a greater range of choice for customers and simpler bills, we think these measures will be far more effective in improving the market for customers than any price caps.

However, given the prospect of default tariff cap legislation we are taking a number of steps to reduce our relative exposure to price caps and their impact on Centrica. We will reduce our exposure to a cap, using our recent efficiency to continue to price competitively and to drive further cost reductions. We had 4.3 million customers on SVTs at the end of 2017 and we expect to reduce this to 3 million by the end of this year as the measures described above take effect. Secondly, as a result of our own cost efficiencies and other actions to date, our current SVT is cheaper than 85% of the market and is £41 a year below the average SVT of the large suppliers. Thirdly, our efficiency programme will deliver an additional estimated saving of £20 per dual fuel customer by 2020.

Taking all of this together, and recognising that the formula for any potential cap is not yet known, we believe that we can deliver a sustainable energy supply business in the UK with healthy returns under most conceivable scenarios.

Turning to Centrica Business, we have continued to develop our business across the five pillars of our divisional strategic framework. We find that in addition to the commodity offerings of energy supply and energy wholesale, business customers want access to more distributed energy generation solutions, and we are moving from building large central power generation plants to many smaller distributed units. Our customers want combined heat and power units, solar arrays and the grid operators want distributed power systems and technology to assist with the optimisation of local energy markets and micro-grids. Along with this, customers want to be able to gain insight from their energy use to save money and improve their operations, including in preventative maintenance. Customers who have distributed energy assets want to be able to optimise them and are willing to pay for optimisation services rather than do it themselves.

We have responded to these needs by developing capabilities in all of these areas, both organically and through targeted acquisitions of Panoramic Power, ENER-G Cogen, Neas Energy and REstore. We have also expanded our distribution and sales capability and built a new marketing platform for business customers under the brand Centrica Business Solutions.

We have also disposed of our large gas fired generation plants and our two large wind farms and continued to shift our portfolio to more distributed assets. We have converted some sites to peaking plant and have several projects underway to build new gas fired rapid response generation sites, as well as constructing a battery storage facility which is one of the largest in Europe. We also aim to divest our shareholding in UK nuclear power. Subject to ensuring alignment with our partner, and being very mindful of UK Government interests in this area, we would hope to achieve this by the end of 2020.

The business customer is also on the move and we are responding to their needs. They want more than just commodity energy supply, and the new capabilities and propositions we have developed once again reinforce the core of the relationship. The returns in value-added services tend to be higher than in pure commodity energy supply.

The big message, therefore, whether in Centrica Consumer or Centrica Business, is that the new propositions and services we have developed are at the heart of what Centrica's core offerings in energy and services now have to incorporate. They are at the heart of what important and valuable customer segments are demanding. Centrica has now developed the capabilities to offer them in a high-quality way. We are seeing improvements in the customer experience and the growth in demand is feeding through to revenues and at attractive margins.

Since we embarked on our new strategic direction we have made a number of acquisitions to provide the key capabilities we did not already have in-house. These acquisitions have all met, and in some cases exceeded, our expectations. We have widened the footprint of the Group beyond the UK and North America to serve customers in 40 countries. However, in the last three months of 2017 the risk envelope for Centrica changed, and as a result, we will not be pursuing growth through major M&A activities. This is because the uncertainty over the UK price cap is too great and we wish to maintain our hard-fought balance sheet strength. We will, however, continue to pursue smaller bolt-on acquisitions to build capability in key areas.

In our asset businesses we have made divestments of over £900 million – towards the top of our target range – and reduced capital investment into them. Last year, we combined our E&P operations with Bayerngas Norge AS, and the new business, Spirit Energy – in which we hold a 69% stake – began trading as an independent oil and gas operator. Our goal is to make Spirit

Energy stronger and more sustainable and we will now target further consolidation. We would be open to having a lower ownership percentage in a larger entity, provided our net E&P exposure remains broadly unchanged and we retain sufficient influence to shape the strategic direction of the business. We would therefore also be prepared to own less than 50% of Spirit Energy if the right opportunity came along.

We also concluded that our Rough storage asset was no longer capable of safe injection operations due to its age and condition and that, because of the economics of seasonal storage and the cost of refurbishing or rebuilding the facility, neither pathway would be economic. We therefore decided that we can no longer operate Rough as a storage facility and have now received all relevant consents and approvals to extract the recoverable gas from the reservoir. In the past, Rough has made a vital contribution to the nation's security of supply. But today, the UK is fortunate in benefiting from a diverse range of energy sources.

Centrica is halfway through a six-year strategic repositioning of the Company and I would now like to summarise what has been delivered during the first phase since 2015.

We have continued our reallocation of resources away from the asset businesses towards our customer-facing activities. We have made divestments of over £900 million and reduced capital allocation to E&P by £300 million per annum while investing an

additional £700 million across 2016 and 2017 in the customer-facing businesses. This has enhanced our capabilities and technologies, leaving us well positioned to capitalise on consumer trends.

We have been successful in reducing costs. We have delivered our £750 million cost efficiency programme three years early. We have also set out plans for further significant cost reductions, totalling an additional £500 million a year by 2020, which will release more savings to support our aim of becoming the most efficient price setter for our chosen propositions and brands.

We have reduced our net debt to less than £2.6 billion, in the lower half of our target end 2017 band, and our credit metrics are at levels currently required for the strong investment-grade credit ratings that we aim for.

As we look forward to 2018/20, although we have still got some portfolio development to complete, the focus is on performance delivery and financial discipline. In performance terms, it is about growing gross margin through our customer relationships, and driving the next phase of cost efficiency. We will also be focusing on improving organisational effectiveness and securing the capabilities we need in 2020 and beyond. We must do all of this while continuing to deliver improvements in safety, compliance and conduct and in operational excellence across the Company, starting with customer service.

Key events in 2017

13 January

Centrica announces sale of its remaining wind farm joint venture

 [Read more on Page 45](#)

20 February

Centrica launches new innovations venture, Centrica Innovations

 [Read more on Page 15](#)

April

Hive thermostat introduced in US, and subscription model launched in UK

 [Read more on Page 20](#)

2017

08 February

Centrica announces global Consumer and Business divisions

22 February

British Gas unveils Rewards, its major new loyalty programme

 [Read more on Pages 19 and 41](#)

09 June

Centrica agrees the sale of its Canadian E&P business

We will be targeting delivery, on average, of £2.1–£2.3 billion of adjusted operating cash flow per annum. We believe this is deliverable, even taking into account a potential price cap, for the reasons outlined earlier. But there remains a risk that a particularly severe cap impact in the first year may put this target at risk for 2019.

As we continue to focus on financial discipline we will be limiting capex to no more than £1.2 billion per annum and targeting to maintain net debt within a £2.25–£3.25 billion range. Despite current pressures, we expect to continue to be able to balance sources and uses of cash in 2018, without materially affecting our ability to invest in the business and deliver on all aspects of our financial framework.

In terms of the dividend, we have indicated since 2015 that it would be linked to operating cash flow and we expect to maintain the current level of the dividend over the period 2018/20, subject to meeting our adjusted operating cash flow and net debt targets. We believe we can manage within both these constraints under most scenarios based on our current projections, but clearly, there are always risks associated with extremes of commodity price movements and regulatory interventions. We would intend to restore a progressive dividend only when, in addition to the criteria already mentioned, underlying cash flow growth capability is demonstrated.

The transformation of Centrica is also about the values which guide us as we go about our daily business. In 2017 we launched a new set of Group-wide values – ‘our Values’ of Care, Collaboration, Courage, Delivery and Agility – and in January this year we launched ‘Our Code’, which replaces the Business Principles and other codes of conduct within the Group. We wanted a clear, unified statement of the most important principles and expectations which apply to all of us. In essence, ‘our Values’ and ‘Our Code’ embody what we stand for. We hope that they will help all of us at Centrica make the right decisions.

The transition we are making has not been easy for our team. Our people have faced, and will continue to face, a number of new challenges. But they have shown extraordinary resilience, passion, commitment and talent, and I would like to thank each of them for all their contributions over the past year.

The first phase of our strategic repositioning is complete. We have strengthened the balance sheet, paid down debt, matched our sources and uses of cash, and refocused resources and capability towards the customer. But we are only halfway through a six-year repositioning and we must stay the course.

The next phase to 2020 is all about performance delivery and financial discipline, as we marry customer-led gross margin

growth with continuing to drive material levels of cost efficiency while maintaining capital discipline and a strong balance sheet.

It is this combination, our track record to date and an excellent and committed team which give us confidence to pursue our medium-term goals of delivering growth and returns through satisfying the changing needs of our customers, deal with the uncertainties posed by any default tariff cap in the UK and indicate a stable dividend outlook within defined boundary conditions.

It is undeniable that at present Centrica faces a higher level of external uncertainty. It is therefore imperative that we focus on the things we can control to underpin our performance.

This is how we will rebuild shareholder value and confidence, and I am determined to demonstrate this through our actions, one step at a time.

Iain Conn
Group Chief Executive
21 February 2018

12 June

Centrica announces national roll-out of industry-first Local Heroes


 [Read more on](#)
Pages 21 and 41

01 August

British Gas extended price freeze ends; increases electricity prices on the standard tariff by 12.5% but protects its most vulnerable customers from the rise


14 November

Centrica announces expansion of Connected Home business into Italy

 [Read more on](#)
Pages 20 and 42

11 December

Spirit Energy launched, following completion of Centrica and Bayerngas Norge E&P joint venture

 [Read more on](#)
Pages 15 and 46



2018

21 June

Centrica announces sale of Langage and South Humber Bank gas fired power stations

03 November

Centrica acquires Europe's leading demand response aggregator REstore

 [Read more on](#)
Pages 28 and 44

20 November


Centrica sets out proposals for UK Energy Market reform

 [Read more on](#)
Page 18



12 December

CMA terminates Rough undertakings at Centrica Storage

 [Read more on](#)
Page 47

Our Strategy

Strategic context

In 2015 our Strategic Review was founded on an analysis of market trends and sources of growth, and the capabilities and efficiency necessary to pursue them profitably.

The three fundamental trends we identified and which are changing the energy landscape – decentralisation, shifting of power to the customer and digitisation – are even clearer today and are playing out in line with our views at the time.

Three macro-trends are driving the energy transition

Decentralisation

Globally, as we pursue lower carbon and more efficient solutions, the energy system is becoming decentralised with more technologies available and viable, close to the customer.

Power to the customer

As a result of increased choice and alternatives, the customer is becoming more powerful. Owning the relationship with customers and satisfying their needs is fundamental.

Digitisation


Technological developments, both physical and digital, are accelerating the pace of change. Capability in these areas is key to keeping up with customers and their changing needs.

These trends demand more decentralised technologies and propositions, more customer intimacy and better service, more agility and stronger technology capability.


The result of all these changes is that the customer is increasingly powerful. That is why, at Centrica, we have put 'satisfying the changing needs of our customers' at the heart of our strategy.

Consumers and business customers show similar trends across all global markets:

Consumer	
Market trends <ul style="list-style-type: none"> • Global demographic changes • Adoption of technology • Mobile first • Self-service • Traditional competitive boundaries blurring • Growth of data and analytics 	Customers need <ul style="list-style-type: none"> • Value for money • Solutions not just products • Frictionless service • Trusted brands • Responsible use of data

 [Read more about Centrica Consumer](#)
Pages 18 to 23 and 41 to 42

Business	
Market trends <ul style="list-style-type: none"> • Volumes per customer reducing • Margins under pressure • Gas becoming global • Mega-trends impacting energy sector • Electricity system becoming more local 	Customers need <ul style="list-style-type: none"> • Reduced cost and increased productivity • Supply security and resilience • An expert partner to guide them through complexity • A trusted and credible counterpart • Not to be distracted from their main activity

 [Read more about Centrica Business](#)
Pages 24 to 29 and 43 to 45

Strategic approach

To deliver the strategy we announced in July 2015, we set ourselves a number of medium-term objectives to 2020. We have organised the Group to deliver customer-led growth through two global customer-facing divisions and refocused our Exploration & Production business.

Our Strategy:

- To deliver for the changing needs of our customers
- To deliver long-term shareholder value through returns and growth
- To be a trusted corporate citizen
- To be an employer of choice
- To be a 21st century energy and services company


Our strategic objectives:

- Customer-led growth
- Smaller and more focused E&P business
- £1.5 billion resource reallocation from E&P and Central Power Generation to customer-facing businesses 2015/20
- £750 million per annum efficiency programme delivery by 2020
- Strong financial discipline within a clear framework
- Adjusted operating cash flow growth of 3-5% per annum

Our focus areas for long-term growth:

- Energy Supply
- Services
- Connected Home
- Distributed Energy & Power
- Energy Marketing & Trading

We already have some or all of the characteristics of material market share, ability to manage large customer books and risk, strong product brands, leading capabilities and emerging products and offerings in these focus areas.

 Identifying and managing risk is essential to delivering our strategy
Read more about how we manage risk
Pages 52 to 62

Customer-facing divisions

In 2017, we reorganised the Group around the customer, creating two new, customer-facing divisions: Centrica Consumer and Centrica Business. The customer needs addressed by each division are global. We have built strategic frameworks around those needs that go beyond energy supply and target those areas where we believe we have real competitive advantage.

Strategic pillars

Consumer

1. Energy supply
2. In-home servicing
3. Peace of mind
4. Home energy management
5. Home automation

Business

1. Energy supply
2. Wholesale energy
3. Energy insight
4. Energy optimisation
5. Energy solutions

Exploration & Production

Exploration & Production (E&P) will continue to play an important role for Centrica, but a more focused one. E&P provides diversity of cash flows and is a source of balance sheet strength. Following our divestment programme, the formation of Spirit Energy, and conversion of the Rough field to a producing asset, our E&P business will now be focused on Europe.

Our Business Model

Our business model is designed to deliver returns and growth through a focus predominantly on our customer-facing businesses.

Our Energy Supply, Services, Connected Home, Distributed Energy & Power and Energy Marketing & Trading businesses are organised into two global customer-facing divisions; Centrica Consumer is designed to support the needs of residential consumers and Centrica Business is designed to support the needs of the business customer. Each division has a strategic framework built around five pillars and these are set out in the diagram below.

Our Central Power Generation business is included within the Centrica Business division, given its role in the management and optimisation of central power generation and its interface with wholesale markets.

Our customer-facing businesses are supported by the common operating functions of Customer Operations and Field Operations. These functions are where we interact with the customer and are fundamental to our success.

Our remaining two business units, Exploration & Production and Centrica Storage, are operated separately and continue to play an important role in our portfolio.

To ensure our model remains efficient and scalable, all businesses are supported by a number of centre-led Group Functions that are responsible for setting boundaries and standards which allow us to effectively manage risk and ensure a strong system of internal control.

Our customer-facing strategic framework

Centrica Consumer

1. Energy supply

- Gas supply
- Electricity supply

2. In-home servicing

- Cover products (protection plans, warranties)
- On demand repair and maintenance
- Installation (heating and air con)

3. Peace of mind


- Home insurance
- Home security and monitoring
- Remote diagnostics

4. Home energy management

- Energy insight
- Energy efficiency
- Energy optimisation
- Energy solutions

5. Home automation

- Home control
- Appliance control

 [Read more about Centrica Consumer](#)
Pages 18 to 23 and 41 to 42



Centrica Business

1. Energy supply

- Gas supply
- Electricity supply

2. Wholesale energy

- Trading partner
- Energy commodities and risk products
- Central power generation

3. Energy insight


- Energy resource management and monitoring
- Operational insights from energy data
- Preventative maintenance

4. Energy optimisation

- Asset optimisation
- Aggregation and optimisation of distributed energy resources
- Access to energy, capacity and flexible markets

5. Energy solutions

- Multi-technology solutions
- Design, install, maintain and service
- Business services

 [Read more about Centrica Business](#)
Pages 24 to 29 and 43 to 45



Our Group Priorities


We are focused on five key priorities to deliver our strategy and we align performance and risk management processes around these, including our Key Performance Indicators.

 **Safety, compliance and conduct**


 **Customer satisfaction and operational excellence**

 **Cash flow growth and strategic momentum**

 **Cost efficiency and simplification**

 **People and building capability**

 [Read more about Key Performance Indicators](#)
Pages 30 to 31

 [Read more about Risk](#)
Pages 52 to 62

 [Read more about Remuneration](#)
Pages 78 to 97

Our long-term financial goals

Our long-term financial goals are delivered through a clear financial framework that enables us to deliver long-term shareholder value through returns and growth.

The risks to achieving the Group's strategy are monitored and reported regularly. For more information on managing our exposure to risk see Our Principal Risks and Uncertainties on pages 52 to 62.

Our priorities also ensure that progress in delivering performance in Safety, Customer Satisfaction, Operational Excellence and People is a core part of the overall Group performance, which is then measured through individual employee scorecards.

Our stakeholder commitments

Customers

Help customers save time and money by delivering excellent customer service alongside innovative products and services.

Employees

Create a great place to work with a diverse and inclusive culture where our people feel motivated and able to achieve their full potential.

Investors

Deliver long-term shareholder value through financial returns and growth.

Society

Provide competitive energy prices and support for those who struggle to pay for their energy.

Regulators and government

Secure a more affordable and clean energy future through engagement while contributing positively to economic growth and tax receipts.

Suppliers

Treat our suppliers fairly and maintain high social, ethical and environmental standards in the products and services we buy.

 [Read more about Responsible Business](#)
Pages 32 to 38

Adjusted operating cash flow (AOCF)

3-5%

Dividend

Progressive in line with AOCF

Controllable costs⁽¹⁾

Cost growth < inflation

Return on average capital employed (post-tax)

10-12%

Capital reinvestment

Investment < 70% of AOCF

Limited to

£1.2bn

per annum from 2018/20

Credit rating

Strong investment grade (Baa1/BBB+ or above)

(1) Controllable costs comprise controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) and adjusted operating costs (excluding depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, the impact of portfolio changes and foreign exchange movements). Like-for-like controllable costs are controllable cost of sales, excluding the impact of portfolio changes, foreign exchange movements and growth investment in Connected Home and Distributed Energy & Power, and adjusted operating costs, excluding growth investment in Connected Home and Distributed Energy & Power.

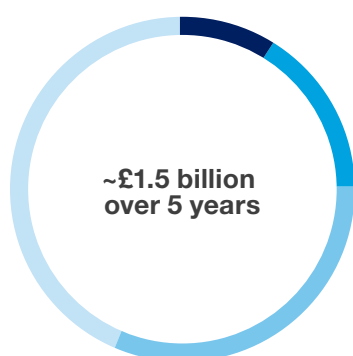
The Strategic Repositioning of Centrica

We have fundamentally repositioned Centrica

1. Stronger and more resilient
2. Capable of delivering customer-led growth
3. Focused on delivering returns and growth

Shifting resources to customer-facing businesses

As part of our customer-led strategy, we announced that we would commit about £1.5 billion of additional operating and capital resources by 2020 to drive growth in our focus areas, broken down as follows:



- Energy Marketing & Trading (EM&T)
- Connected Home
- Services
- Distributed Energy & Power (DE&P)

We have invested over £700 million in these activities since the end of 2015 and expect further growth investment of around £250–£300 million per year out to 2020. We are reducing resource allocation to our asset portfolio by about £1.5 billion over this period.

Asset portfolio materially repositioned

In 2015, we announced a £500 million to £1 billion disposal programme which has delivered proceeds of over £900 million by the end of 2017, including the disposals of:

Canada E&P	£255m
Trinidad & Tobago E&P	£26m
Combined cycle gas turbines	£314m
Wind assets	£308m

Acquisitions

AlertMe (Connected Home) Mar-2015	£37m	Provides the technology that underpins Connected Home activity
Panoramic Power (DE&P) Nov-2015	£39m	Leading provider of device-level energy management solutions
ENER-G Cogen (DE&P) May-2016	£138m	Established supplier and operator of combined heat and power solutions
FlowGem (Connected Home) Aug-2016	£18m	An early stage UK-based business developing unique and innovative technology to remotely detect water leaks
Neas Energy (EM&T) Oct-2016	£184m	One of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets
REstore (DE&P) Nov-2017	£59m	Europe's leading demand response aggregator

Organic investments

Over £300 million of incremental investment across 2016 and 2017.

- Connected Home: introduced Hive in North America, increased marketing spend and launched the subscription model.
- UK Home: invested in building Local Heroes and launched British Gas Rewards.
- DE&P: supported global mobilisation of technology, propositions and development teams. Launched in North America and funded further geographic expansion.
- EM&T: focused on business development within existing markets.
- North America Home: growing services, primarily annuities/protection plan products and new home heating, ventilation and air conditioning installations.
- Centrica Innovations: first investments to identify, incubate and accelerate new technologies and innovations.

Exploration & Production (E&P)

In 2017 we created a new E&P business, Spirit Energy. Centrica owns 69%, with Bayerngas Norge's former shareholders, led by Stadtwerke München Group, owning 31%.

Centrica Storage

Following extensive well testing, we concluded that the Rough facility was no longer capable of safe injection operations. We have been granted the necessary approvals to produce the indigenous gas and liquids from Rough before decommissioning.

Central Power Generation

We have shifted our portfolio to more distributed assets. We have converted some sites to peaking plants, are redeveloping Kings Lynn A, building new flexible gas fired generation, and installing one of Europe's largest rapid response batteries. We consider our nuclear position as a financial investment.


E&P smaller and more focused

The formation of Spirit Energy creates a strong and sustainable European E&P business, combining Centrica's cash-generative and relatively near-term production profile with Bayerngas Norge's more recently on-stream producing assets and development portfolio.

The new company is a robust, self-financing entity, and will invest in the range £400–£600 million per annum to deliver sustainable medium-term production of 45–55 mmboe.

It has operations across the UK, Norway, Denmark and the Netherlands, with interests in 28 producing fields and over 70 exploration licences.

Spirit Energy's focus in 2018 will be to maximise efficiency from its producing assets, as well as progressing several key projects including the development of the Oda field, submitting a plan for Skarfjell field development, appraisal drilling at the Fogelberg discovery and drilling on a number of exploration prospects.

 **Read more about E&P in the Business Review**
Pages 46 to 47




Technology and innovation

Building capability in technology and innovation is a key enabler in supporting our customer-facing businesses to improve our offerings, deliver new products, propositions and service delivery to meet our customers' changing needs.

Our Technology & Engineering function is maturing. We are investing in a portfolio of innovative projects covering areas such as energy storage, electric vehicles, artificial intelligence and blockchain. We filed 24 patents in 2017.

We strengthened our Quality Assurance capability to drive improvements in the manufacturing value chain. This will support greater reliability of our products in customer installations, reduce cost and improve our operational efficiency.

 **Read some examples of how we are using technology to benefit consumers and businesses**
Pages 16 to 29

Investing in innovation for competitive advantage

Centrica Innovations (CI) is a strategic investor, helping accelerate Centrica's transformation. Since its inception in February 2017, CI has invested in companies with pioneering technologies.

EtaGen

A California-based start-up developing a linear generator that offers businesses affordable, flexible, reliable and clean on-site power.

Io-Tahoe

An Artificial Intelligence driven data management company was created by combining internal innovation and acquired intellectual property.

Rokitt Astra

In May 2017, the assets of Rokitt Astra were acquired and combined into Io-Tahoe to add machine learning to in-house data discovery solutions.

LO3 Energy

An innovative start-up specialising in blockchain-based solutions for energy transactions.

With technology hubs around the world, our teams in New York, Houston, San Francisco, Seattle, London and Tel Aviv actively scan for companies with the latest innovations for integration within the Group.

“ From the Internet of Things to the Internet of Energy, our customers are empowered to take more control over their energy use. In the connected world, Centrica has a solid position and strong capability. ”

Charles Cameron

Director of Technology & Engineering and Centrica Innovations

A strategy shaped by **our cust**

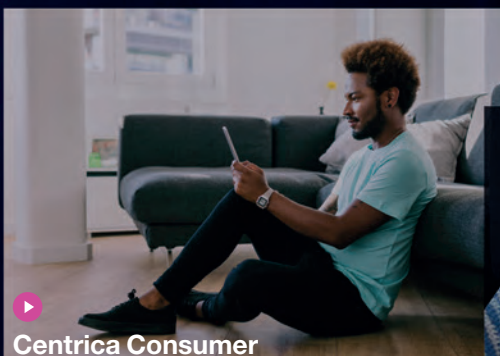
Centrica Consumer

We want to make householders' lives easier, by providing seamless, time-saving services that are easy to use and help save them money.

Understanding and satisfying customer needs is critical to our success. We have around 27 million customer accounts. Every year we receive 36 million phone calls and support more than 31 million online transactions. Through these interactions, we gain an unrivalled understanding of our customers' needs in and around the home.

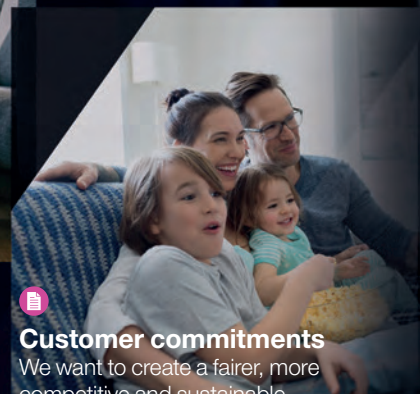
Residential customers are seeking value for money and solutions, not just products, especially in the home. They desire great service, when and how they need it, and the reassurance of trusted brands. Customers also increasingly understand the value of their own personal data. They expect it to be used responsibly and held securely.

We believe these trends present us with numerous opportunities.



Centrica Consumer
Bringing our Consumer strategy to life

centrica.com/video/consumeroverview



Customer commitments

We want to create a fairer, more competitive and sustainable energy market

See page 18



Getting the most out of your energy

Home comparison helps Direct Energy customers save money at their fingertips

centrica.com/video/dehomecomparison



Responding to Harvey

Our Direct Energy colleagues talk about their experiences after Hurricane Harvey

centrica.com/video/hurricaneharvey



omers'

changing needs

Centrica Business

At Centrica Business, we aim to be the partner that our business customers will turn to for advice on how best to manage their energy needs.

Our business customers, like our residential customers, are cost conscious. They want their bills to be as low as possible and they want to increase their efficiency wherever they can. Energy is essential, so they need to know that their supply is resilient.

Energy processes are complex. Our customers want an expert adviser to help them understand their energy use; a trusted and credible partner, who can deliver energy solutions as promised.

We can and do help to meet all these needs.



Battery storage

Unlocking alternative energy sources with battery storage

centricabusinesssolutions.com/batterysolution



Helping businesses reach their potential

Entering a pioneering contract with Europe's single biggest onshore wind installation

[See page 29](#)



Centrica Business

Managing the revolution in energy systems for our business customers

centrica.com/video/businessoverview



Power in Your Hands

Powering our business customers' ambitions with intelligent, end-to-end energy solutions

centricabusinesssolutions.com/powerinyourhands

Centrica Consumer

Creating a fairer, lasting deal for energy customers

We want to create a fairer, more competitive and sustainable energy market for our customers.

Our commitments to customers

We have been listening to our customers and stakeholders. We froze our prices in the UK through the entire winter of 2016/17 until last August, longer than any other supplier, and introduced a loyalty reward scheme. But we recognise that we need to go further.

On 20 November 2017, we announced seven commitments to customers, which we are working to deliver. We will:

1. End Standard Variable Tariffs (SVTs) for new customers
2. Engage customers already on SVTs and offer them better deals
3. Offer a choice of competitive fixed-term tariffs at the end of their contract
4. Introduce a new fixed-term default tariff
5. Provide new offers to respond to customers' changing needs
6. Bring in simple, no-nonsense bills for all our customers
7. Continue improving our customer service and our own efficiency

Our actions alone won't improve the market. So, we have asked the UK Government and Ofgem to:

1. Phase out SVTs altogether
2. Level the playing field on social and environmental policy costs which are included in energy bills
3. Move the funding of all government policy costs away from energy bills
4. Make the smart meter roll-out more efficient and effective
5. Be more consistent in the way vulnerable customers are treated
6. Remove strict rules making energy bills complicated
7. Refresh the calculation of the price cap for customers on pre-payment meters

We feel these changes will be more effective than further government intervention in the shape of temporary price controls.

Digital engagement

We want to create better digital experiences, because our customers want and expect us to. Webchat means we can respond to customers' online queries more quickly and at a time convenient to them. Our British Gas Chatbot allows customers to seek help or book smart meter appointments without needing to call us up. They can also now interact with British Gas by using voice commands through Amazon Alexa. Our energy insight platforms – My Energy Live in the UK and Direct Your Energy in the US – help customers who have smart meters to gain greater insights into their energy use with just a few taps on their smartphone. We are currently trialling our next generation app, for roll-out later this year, which will include a range of enhanced functions, including tailored insights and alerts to help give customers more control over their spending.

70%

More than 70% of visits to britishgas.co.uk are now from mobile devices



Rewards

Inspired by the success of the Bord Gáis Energy Rewards Club in Ireland, the Centrica UK Consumer business launched British Gas Rewards. This programme gives customers highly personalised offers, giveaways and monthly prize draws as our way of saying thank you. So far, the benefits range from a free boiler service and a Hive Active Light Pack, to 10% off at Waitrose and Sky Store movies. Loyalty days provide customers with a number of days of free energy each year, linked to how long they have been with us.

+8

Increase in net promoter score (NPS) for British Gas Rewards members compared to non-Rewards customers

5.5m

Number of offers shown to our British Gas Rewards members by the end of 2017



[Link to Consumer strategic framework Energy supply](#)



Putting our **customers at the heart** of everything we do

Through our customer knowledge, insight and experience, we are putting customers in control of how they run their homes, helping to make their lives simpler and smarter.

Bringing Connected Home to customers in new markets

We have grown the Hive ecosystem, expanding the range of products and services that make our customers lives easier.

In 2017, Connected Home launched new subscriptions plans across the UK, Ireland and North America, to enable our customers to choose the package that works for their home. This includes smart bulbs and plugs, door and window sensors and a new smart home security camera.

In the UK, we launched the Hive Leak Plan, a subscription service featuring the new Hive Leak Sensor. This monitors water flow around the home, notifying the customer of potential leaks through the Hive app and connecting the customer with a British Gas engineer, who can repair the problem.

We are bringing the benefit of our Hive products to customers across the world including Ireland, North America and Italy. In Italy, this is through our five-year partnership with energy supplier, Eni gas e luce. This has the potential to enable Eni's eight million customers to access and use our products. Partnerships like this will increasingly be the focus for growing our Connected Home business.

“ Having full control of your central heating and hot water in the palm of your hand, it’s so simple to use and the money it saves you over the 12 months is awesome. ”

UK Hive Active Heating customer

1.6m

Connected Home cumulative products sold

+39

NPS for UK Hive customers



Link to Consumer strategic framework
Peace of mind
Home energy management
Home automation

Local Heroes goes nationwide

We know it's important for customers to get quick and easy access to reputable tradespeople if they need help with household breakdowns and other problems. Following a successful pilot, in June 2017 we launched a digital platform service in the UK that helps people to find trusted local tradespeople to complete jobs in the home and also helps tradespeople to source local work. It is quick and easy to use and has a 12-month guarantee backed by British Gas. By the end of 2017, more than 7,000 Local Heroes had signed up to the platform and completed nearly 25,000 jobs. The service provides us with access to the large and growing on demand market and has high customer satisfaction ratings.



“ Came out in less than an hour, called me 20 minutes before arrival and fixed the job in double quick time. ”

Local Heroes customer

25,000

Jobs completed for Local Heroes customers by the end of 2017

+81

Average NPS for Local Heroes customers

Link to
Consumer strategic framework
In-home servicing
Peace of mind

Building workplace capabilities fit for the future

We are making long-term investments in our engineers' capabilities and tools so they are better equipped to serve our customers. In 2017, we invested £8.6 million in training and developing the skills of our 11,000 strong UK network of engineers and apprentices. Together, they completed over 385,000 hours of training last year. This equates to nearly one week per year for each engineer and will help them deliver a better customer experience across our full range of products and services – from boiler repairs to Connected Home devices.

We are also investing in technology so our engineers and technicians have the right tools at their fingertips. We have provided our engineers with smartphones so they can work more easily on the go. Our labs continue to develop new technologies and in 2017, we enhanced our diagnostic tool, XSOL, improving its ability to identify problems. It now provides our engineers with full diagnostic information across nearly 1,000 different types of boilers enabling us to reduce the time taken to fix our customers' boilers by 8%.

£8.6m

Invested in engineer and apprentice training

11,000

Engineers and apprentices in the UK

Link to
Consumer strategic framework
In-home servicing





Supporting our Texan colleagues and customers through Hurricane Harvey

In August 2017, Texas was hit by Hurricane Harvey. We worked hard to support our people, customers and communities through this difficult time and help them rebuild their lives.

We delivered hurricane preparedness checklists and evacuation information before the hurricane struck, via bill inserts and direct mail. Our aim was to help customers to be as prepared as possible. To cushion the financial impact of the event, we suspended late payment fees and disconnections for customers in affected areas and offered them flexible or deferred payment plans.

Our own people wanted to help too. So, we launched a Direct Energy donation page for them to pledge money to the American Red Cross who were co-ordinating the support effort in the hardest hit areas of Houston and Corpus Christi. This raised over US\$50,000 (£38,860) and Direct Energy made a matching donation.

“ The Direct Energy Back Office team was on the ground helping customers who really needed our personal attention after the devastation from Hurricane Harvey. The best part was seeing the relief on their faces. ”

Tara Norris
Direct Energy
Assistance Program Coordinator

>US\$100,000
(£77,720)

Total donation to help those affected by Hurricane Harvey

▶ Watch our video about how our people responded to Hurricane Harvey
centrica.com/video/hurricaneharvey

Link to
Consumer strategic framework
Energy supply
In-home servicing

Going above and beyond to help our customers

Our engineers and technicians make thousands of visits to our customers' homes every week. In 2017, across our business, our engineers made nearly 11 million visits to customers' homes.

On one of those visits, British Gas installations engineer, Adam Downend, rang the bell and didn't get an answer. He called the phone number and could hear the phone ringing upstairs. Adam walked around the house and looked through the window to find the elderly customer lying on the sofa. After trying to get a response by banging on the window and shouting through the letter box, Adam then decided to gain access through an open bedroom window upstairs. Putting his ladder up to the window, he secured it safely and climbed in. When he got downstairs he found that the customer was barely conscious, so he put her in the recovery position and called for an ambulance. Adam then followed the instructions of the operator to keep her conscious while waiting for the paramedics to arrive and take her to hospital for treatment. When she got home, the customer thanked Adam for his help and quick thinking.

We are in a real position to help our customers through the millions of visits we make to their homes each year.



Adam Downend
Installations Engineer

“ I'm very proud of Adam's actions which reinforce just how brilliant our people can be. ”

Andrew Reaney
Installations Director,
UK Field Operations

11m

Number of engineer visits to customers' homes each year

[Link to Consumer strategic framework](#)
In-home servicing
Peace of mind



Centrica Business

Turning energy into an opportunity

With advances in technology, the energy market has evolved. Power increasingly lies in the hands of our customers, turning energy from a simple commodity into a critical source of business advantage. Customers are starting to use energy to gain a competitive edge, increase their resilience, improve operational efficiency and to help to futureproof their businesses.

Helping St George's Hospital to deliver operational efficiency

St George's Hospital in Tooting is the largest healthcare provider in South West London. It serves 1.3 million people and 800,000 patients, as well as being a teaching hospital and advanced medical research centre. It employs over 8,500 people. During 2017, we continued working to deliver the hospital with end-to-end solutions that improve their energy efficiency and operational performance, while reducing carbon emissions.

An energy centre is being installed to replace the existing 40-year-old system. This comprises a new combined heat and power plant, efficient boilers and lighting alongside heating, ventilation and air conditioning systems. Meanwhile, energy use is optimised through a building management system.



Each year the St George's Hospital project is projected to save:

£1m

Cost savings

6,000tCO₂e

Carbon emissions

“ The energy centre will deliver recurring savings in energy costs year-on-year which can be redirected into patient care. It also helps St George's Hospital meet their goal of reducing their carbon footprint. ”

Alan Barlow
Director UK & Ireland
Distributed Energy

Link to
Business strategic framework
Energy optimisation
Energy solutions



▶ Explore how distributed energy and power works
centricabusinesssolutions.com/powerinyourhands

Powering Britain

There has never been a more important time for us to work with businesses and other large energy users to develop solutions for them which can unlock new revenue streams, become a source of competitive advantage and drive growth. Our report, 'Powering Britain's Economic Future', set out to measure those impacts and demonstrate the benefits of distributed energy solutions. It assessed the potential economic benefits to the UK if three major sectors – Industrial, Health, and Hospitality & Leisure, which together represent over a quarter of the UK economy – were to adopt a range of solutions including battery storage, on-site power generation and energy saving devices.

It found these solutions could generate in the UK⁽¹⁾:

£980m

Saving on annual energy bills

£18.5bn

Gross value added to economy

(1) Centrica Business Solutions research supported by FTI Consulting, Modelling 2017.

▶ **Read more in Responsible Business**
Pages 32 to 38

▶ **Read the full report at**
centricabusinesssolutions.com/poweringbritain



Link to
Business strategic framework
Energy supply

Increasing energy efficiency for Pittsburgh City-County building

The historic City-County building has stood in downtown Pittsburgh since 1917. Direct Energy is helping to bring it into the 21st century by optimising its energy use and improving its resilience.

In January 2017, we installed our energy insight solution, Panoramic Power, on the sixth floor of the building which houses part of the city's government offices and data centre. The system uses sensors and cloud-based analytics to transmit real-time data on energy use to the customer's dashboard. This can be viewed on a desktop or mobile device and provides actionable insights to improve operational efficiency.



Find out more about how Panoramic Power works
centricabusinesssolutions.com/energyinsight

Link to Business strategic framework Energy insight

“ By capturing a variety of usage data, we are able to obtain a keen sense of consumption patterns and behaviour trends that will allow us to make more strategic decisions related to energy efficiency and capital upgrades. ”

Grant Ervin
Chief Resilience Officer for the City of Pittsburgh

Empowering Gateshead Council to cope with local energy spikes

Centrica has installed one of the country's largest commercial battery storage schemes for Gateshead Council, giving it greater flexibility in managing its energy. The 3MW battery facility is equivalent to one million AA batteries and forms the final part of the Gateshead District Energy Centre, which also includes a pair of 2MW combined heat and power units.

Centrica will manage the battery project under a 10-year contract. This scheme will help keep the national electricity network in balance by responding to any fluctuations on the system in less than a second. In time, it will also be used to strengthen Gateshead's energy resilience by providing electricity to council-owned buildings through a private wire.

“ This is a bold, imaginative scheme that means we can also store and release energy when we choose, as well as supporting the National Grid, which helps raise more income to support Council services. ”

Councillor John McElroy
Cabinet Member for Environment and Transport, Gateshead Council

24/7

Battery available to the grid 24 hours a day, seven days a week

3MW

Battery capacity

[Link to Business strategic framework Energy solutions](#)



Acquiring REstore, Europe's leading demand-response aggregator

Whether it's reducing energy usage at certain times, supplying energy back into the grid or increasing consumption when the grid is over-supplied, demand response is helping energy markets to become more flexible. Last year, we strengthened our ambitions in this area by acquiring REstore NV. It delivers cloud-based demand-side management software and demand response services to over 150 of Europe's largest energy users, such as ArcelorMittal and Total. With these capabilities, we are now playing a leading role in reducing pressure on the electricity grid.

One example of how these efforts are helping our customers is Lineage Logistics Europe (formerly known as Partner Logistics), a frozen food warehousing company in the UK. REstore works with the team to reduce the use of the cold store compressors and fans for short periods during peak demand without affecting overall operations. In return, Lineage Logistics Europe receives a reward from the electricity transmission system operator for being flexible, and the arrangement also helps the business to meet its own sustainability objectives.

This will be a significant growth area for us as global markets for demand response evolve.

850MW

Flexible power capacity to grid operators

[Link to Business strategic framework Energy optimisation](#)





Entering a pioneering contract with Europe's single biggest onshore wind installation

Providing a route-to-market for renewable power generators is one of the distinctive capabilities of Neas Energy, part of our Energy Marketing & Trading business. Neas has signed a landmark, long-term balancing and hedging contract with Europe's biggest onshore wind farm, Markbygden ETT in Sweden. The agreement includes the management of price risks in the Nordic electricity and certificate market, as well as the physical sale and balancing of power production in the Nordic wholesale market. Underpinning this contract is a 19-year fixed volume corporate Power Purchase Agreement (PPA) with Norsk Hydro, a leading global aluminium producer, where Centrica is offtaking power for the first year and subsequently 77% of the power will be bought by Norsk Hydro as a corporate PPA and the remainder will be sold on the power markets.

650MW

Wind farm supported

497,000tCO₂e

Carbon emissions avoided

[Link to Business strategic framework](#)
Wholesale energy
Energy optimisation

Helping the Government of Canada to achieve its energy ambitions

We are helping the Government of Canada to realise its energy ambitions through a new 10-year contract. Under this, we will supply up to 10 billion cubic feet of gas annually and secure access to new sources of renewable biomethane gas. We will also provide strategic counsel, including a detailed procurement strategy, budget preparation, billing and data management. Our comprehensive data amalgamation capabilities will allow detailed tracking and analysis of energy use. This will help to identify efficiency improvements, which the Government of Canada can make to reduce its energy costs and carbon footprint.

“ We are pleased to be a part of this collaboration effort to reduce natural gas consumption and cost while supporting green energy to lower our carbon footprint. ”

Honourable Ralph Goodale
Minister of Public Safety and
Emergency Preparedness

C\$8m

(£4.7m)

Value of contract

[Link to Business strategic framework](#)
Energy supply
Energy optimisation

Key Performance Indicators

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

Our Group Priorities



Safety, compliance and conduct



Customer satisfaction and operational excellence



Cash flow growth and strategic momentum



Cost efficiency and simplification



People and building capability



Read more about Our Strategy
Pages 10 to 11



Read more about Remuneration
Pages 78 to 97



Read more about Adjusted performance measures
Pages 216 to 217

Financial KPIs

Adjusted operating profit

Operating profit is one of our fundamental financial measures. It is adjusted to a post-tax basis and a charge on capital is then applied to set the economic profit performance targets.

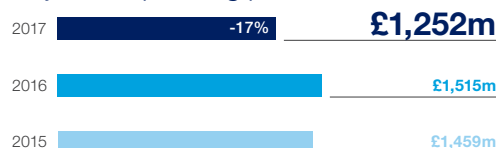
Adjusted operating profit was down 17%, reflecting reduced profit in our Centrica Business energy supply business units.

[Link to Remuneration:](#)
Long-term incentive

[Link to Group Priorities:](#)



Adjusted operating profit



Adjusted basic earnings per share (EPS)

EPS is a standard measure of corporate profitability. EPS is adjusted to better reflect the underlying performance of the business.

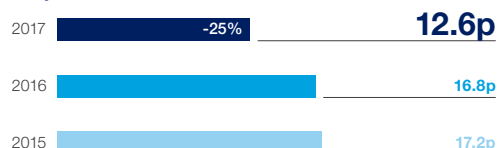
Adjusted basic EPS was down 25%, which includes the impact of lower operating profit, a higher interest charge and a lower tax rate.

[Link to Remuneration:](#)
Long-term incentive

[Link to Group Priorities:](#)



Adjusted basic EPS



Adjusted operating cash flow

Adjusted operating cash flow is our key measure of financial performance and is the financial metric for the short-term incentive plan for our Executive Directors.

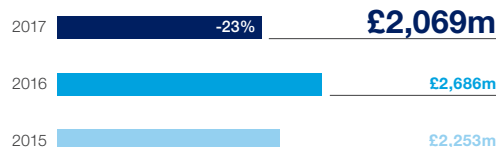
Adjusted operating cash flow was down 23%, reflecting lower operating profit and the impact of £357 million of one-off working capital inflow in 2016 in UK Business.

[Link to Remuneration:](#)
Short-term incentive

[Link to Group Priorities:](#)



Adjusted operating cash flow



Total shareholder return (TSR)

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

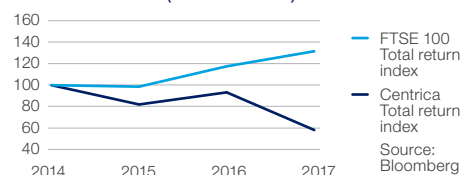
Centrica underperformed the FTSE 100 return index over the three-year period ending in 2017 by 73%.

[Link to Remuneration:](#)
Short and long-term incentive

[Link to Group Priorities:](#)



TSR indices (unaudited)



Non-financial KPIs

Lost time injury frequency rate (LTIFR)

We prioritise safety and aspire to have an incident-free workplace.

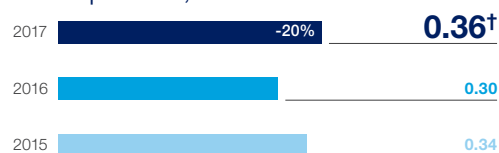
Our LTIFR worsened to 0.36 in 2017. We are growing our safety culture by targeting interventions in key performance areas and introducing improved management systems.

Link to Remuneration:
Long-term incentive

Link to Group Priorities:



LTIFR per 200,000 hours worked



Process safety

We focus on process safety where we source, generate and store energy to prevent potential incidents, such as fires and releases of gas.

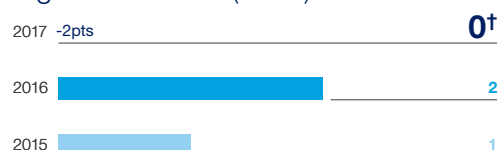
In 2017, we experienced zero significant process safety events. We remain committed to strengthening our understanding, monitoring and controls related to process safety.

Link to Remuneration:
Long-term incentive

Link to Group Priorities:



Significant events (Tier 1)



Employee engagement

Having an engaged workforce is key to our success. We seek feedback on what we are doing well and where we can improve through our annual employee engagement survey.

In 2017, employee engagement was 52% favourable which is below the external employee engagement benchmark of 72%. While our score indicates a slight improvement from 2016 on like-for-like questions (see page 85), morale remains affected by the continued restructuring of our business. We are taking meaningful action to improve engagement.

Link to Remuneration:
Long-term incentive⁽¹⁾

Link to Group Priorities:



Employee engagement (% favourable)



Measurement in 2017 moved to a new provider to enable best practice external benchmarking. Due to changes in methodology, direct prior year comparisons are not available.

Net promoter score (NPS)

We strive to satisfy the changing needs of our customers. To measure customer satisfaction, we use NPS⁽²⁾.

NPS performance across the business was mixed in 2017 (see pages 41 to 43). We are working to improve satisfaction by enhancing our customer service capabilities and delivering the new products and services our customers want.

Link to Remuneration:
Long-term incentive⁽¹⁾

Link to Group Priorities:



UK Home



North America Home



UK Business



North America Business



The KPIs associated with our 2018/20 Remuneration Policy can be found on page 89. We will disclose our performance against these KPIs in our Annual Report and Accounts 2018.

(1) NPS and employee engagement linked to Executive remuneration arrangements are calculated using historical methodology and business areas which were approved by shareholders as part of the current Remuneration Policy. See page 85 for more information.

(2) NPS methodology was implemented consistently across the UK, Ireland and North America from 2017. Prior year figures have been restated where applicable.

Read about our wider performance in Responsible Business – Performance Measures Pages 218 to 220

Assurance We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement over 22 metrics highlighted with the symbol '†' throughout our Annual Report and Accounts 2017.



Further details are set out on page 218 in Responsible Business – Performance Measures or online at centrica.com/assurance

Being a responsible business

We provide energy and services that are at the heart of our customers' lives. To continue doing that and generate greater value in society over the long term, we focus on being a responsible business.

This helps us realise our strategy to deliver for the changing needs of our customers and be a trusted corporate citizen, an employer of choice and a 21st century energy and services company, driving long term shareholder value through returns and growth.

Contents



Caring for our customers
Pages 33 to 34

>1m

Vulnerable customer households helped

1.6m

Connected Home cumulative products sold



Being an employer of choice
Page 35

>£10m

Investment in training engineers, technicians and apprentices

57,300

Volunteering hours



Enabling the low carbon transition
Page 36

31mtCO₂e

Customer carbon savings from measures installed since 2008

19%

Total carbon emissions reduction



Building strong communities
Pages 37 to 38

£156m

Total community contributions

£10m

Investment committed to start-ups with innovative energy ideas that benefit society



Want to find out more?

Explore how we do business responsibly and how we engage stakeholders on material issues at centrica.com/responsibility



Read more about our non-financial KPIs

Pages 218 to 220

Caring for our customers

We care about our customers and challenge ourselves to provide market leading products, services and solutions that not only satisfy them, but enhance their lives and business success.

Making lives simpler and smarter

We are focused on saving our customers time and money, while making it easier for them to understand energy.

Smart meters improve bill accuracy and empower customers to reduce their use by providing insight into how much energy they are using and its cost in real-time. Since 2009, we have led the smart meter roll-out in the UK, installing around five million in homes and businesses. Building on this, a simpler, no-nonsense British Gas bill will be introduced during 2018.

We are making it easier for customers to control and optimise their energy. In 2017, we established Centrica Innovations with a £100 million investment to build, collaborate and invest in purposeful start-ups that will make energy work better for customers by focusing on control, convenience and affordability. Cumulatively, we have also sold over 1.6 million Connected Home products that can be controlled conveniently with just a tap on the app – from smart thermostats, plugs, lights and cameras, to window, door and motion sensors.


We are investing in our customer service capabilities so that we can provide an excellent service.

In 2017:

- UK Home invested in training and intelligent call-routing;
- North America Home improved training and self-serve capability;
- Ireland increased training, process automation and enhanced customer-facing IT platforms;
- UK Business strengthened bill accuracy and timeliness; and
- North America Business improved its online customer platform as well as digital journeys for acquisitions.

Over time, these efforts will help reduce customer complaints and improve satisfaction.

 **Read more in Centrica Consumer and Centrica Business**
Pages 16 to 29

 **Read more in the Business Review**
Pages 41 to 43

1.7m

Customers who choose to contact us via our digital platforms



A growing number of customers are able to interact with us when and how they want. Meet our social media customer service team to see how we are responding to customer needs in real-time.



Watch our video
centrica.com/customerservice



Cherry Healey

@cherryhealey *Does anyone have a Hive heating control system? Are they any good?*

Sarah Willingham

@sarahwillers *Yes and yes. V good! Gets a bit obsessive 😊*

26 Jan 2018

89%

Customers with smart thermostats who feel more in control over their heating



Caring for our customers (continued)

Powering competitive advantage

Through our Distributed Energy & Power (DE&P) business, we are giving large-scale energy users the power to operate and optimise their energy so that they can use it more efficiently. This increases their operational resilience and unlocks new sources of revenue for growth. In 2017, we made it easier to harness these benefits by launching our offer to businesses under a new Centrica Business Solutions banner, providing end-to-end customer solutions – from flexible and local generation, battery storage and energy efficiency measures, to smart building management systems and energy trading technologies.

Key sectors in the UK could save millions of pounds a year if they adopted distributed energy solutions⁽¹⁾:

£540m

Industry

£130m

Healthcare

£310m

Hospitality & Leisure

(1) Centrica Business Solutions research supported by FTI Consulting, Modelling 2017.

 **Read the full report at**
centrica.com/economicfuture

Helping those in need

We have worked hard to deliver a fairer, more competitive energy market for everyone, especially those in need. Having cut prices in 2016, however, we made the difficult decision to increase them in 2017. British Gas' electricity prices rose by 12.5% due to an increase in costs relating to energy policy and the delivery to customers' homes. Similarly, Bord Gáis Energy put up prices by 5.9% for electricity and 3.4% for gas, following a rise in wholesale energy costs and distributing energy to the network. In the UK, we have set out a range of initiatives to help drive engagement with the energy market and ensure customers get a better deal. This includes closing our standard variable tariff to all new customers and introducing fixed-term competitive tariffs (see page 18).

In 2017, we helped over one million vulnerable customer households through mandatory and voluntary schemes.


This included:

- 667,900 customers accessing bill assistance via the UK's Warm Home Discount scheme and North America's Neighbor-to-Neighbor programme;
- 297,000 customers supported with bill assistance following Hurricane Harvey in North America;
- 26,900 customers and non-customers helped with debt advice and grants through the British Gas Energy Trust; and
- 53,200 households receiving energy efficiency improvements via the UK's Energy Company Obligation, while five communities benefited from Ireland's Better Energy Communities scheme.

Our award-winning customer service training ensures we identify and support those who need a helping hand. By the end of 2017, over 21,000 employees had become Dementia Friends, improving our ability to help those living with the condition. We also supported the development of industry guidance that will enable the utility sector to become dementia-friendly.

Innovative products and services are creating a better world for people with disabilities and those in later life. In 2017 for example, we launched a video relay service for customers who use British Sign Language, allowing them to interact with us much more effectively.



 See how our support can benefit those in need
centrica.com/BGET



“ This programme has given us a level of awareness I never could have imagined. We'll not only improve our profit margins, but become better corporate citizens and better professionals. ”

Rafael Ruíz Muñoz
Corporate Brand Director,
CMR Chili's

A restaurant chain in Mexico who use Panoramic Power sensors, part of our distributed energy solutions

Being an employer of choice

We want to be the best at attracting and retaining a talented and diverse workforce who are motivated and able to deliver for our customers.

Building skills for the future

We are creating a workforce fit for the future by investing in our people's development and providing opportunities that attract a diverse array of talent.

In 2017:

- 15,000 engineers, technicians and apprentices enhanced their skills, supported with an investment of more than £10 million in training;
- 5,800 employees seized the opportunity to learn new skills through volunteering, generating 57,300 volunteering hours; and
- 180 young people developed workplace skills on our graduate programmes.

We are known for our world-class engineering apprenticeships. We are building on this success by expanding our customer service apprenticeships and providing new ones in leadership, management and digital amongst other areas during 2018.

We are using our expertise to nurture the skills that our society needs. Since 2010, we have reached nearly 562,000 young people with our curriculum-based lesson plans, helping to improve skills in the key areas of science, technology, engineering and maths (STEM). Over the past four years, we have also helped 1,160 young, unemployed people to secure workplace skills through the Movement to Work scheme. Around 60% of scheme participants went on to secure permanent employment or further training. We will provide a further 300 places in 2018.

“ My main highlight is not only the professional development you get but the personal growth that happens day-to-day. ”

Mal Prasad
HR Graduate

Embracing workforce diversity

Reflecting the diversity of our customers and communities in our workforce is vital if we are to attract and retain the talent to satisfy our customers. We are working hard to become a more diverse and inclusive workplace and in 2017, we launched a new Disability and Wellbeing Employee Network to complement our other employee networks. Business in the Community (BITC) have recognised our efforts in this area, awarding us a Bronze award for our commitment to gender and race inclusion.

 [Read more about diversity and inclusion](#)
Pages 70 to 71





 [Hear from our people about what diversity and inclusion means to them](#)
centrica.com/ourdiversity



Respecting our people

Our success depends on our people. That is why we want our people to stay safe and why we respect and respond to their needs. We have robust processes in place to uphold equal pay and reward our people fairly, which includes paying at least the Living Wage in the UK and taking action to close the gender pay gap. We also conduct an employee engagement survey to understand how our people feel, so that we can improve our result.

 [Read more about our safety performance](#)
Page 218

 [Read more about employee engagement](#)
Page 31

0.98[†]

Total recordable injury frequency rate per 200,000 hours worked (2016: 0.98)

 [View our Gender Pay Statement](http://centrica.com/genderpay)
centrica.com/genderpay

Enabling the low carbon transition

We are tackling climate change by reducing emissions across our business and providing products and services that lead to a lower carbon future.

Helping customers cut their carbon emissions

More than 90% of our carbon emissions are associated with the energy consumed by our customers. So the biggest contribution we can make in tackling climate change is to help them cut their carbon by using our energy efficiency and Connected Home products, alongside the solutions offered by our DE&P business. We calculate this has saved our customers nearly 31mtCO₂e since 2008 – equivalent to the annual emissions of around nine million UK homes.


Decarbonising the energy system

Centrica is revolutionising the way energy is generated, managed and consumed, by leading the transition to a decentralised energy system that enhances grid flexibility, supports renewables and reduces reliance on fossil fuels.

During 2017, we:

- created Centrica Business Solutions, a one-stop-shop for large-scale energy users to harness distributed energy products and services;
- completed a 3MW battery storage scheme for Gateshead Council, to help keep the national electricity network in balance;
- invested £62 million to acquire REstore, Europe's leading demand-response aggregator, enabling us to counter grid imbalance by managing demand from commercial and industrial customers; and
- launched a £180 million investment programme to build three new flexible power generation facilities and one of the world's largest battery storage facilities, to meet peaks in local demand and back-up intermittent renewables.

We are additionally playing an important role in growing the infrastructure needed to lower emissions from transport, having installed around 13,000 electric vehicle charge points since 2013.

 [Read more about Centrica Business](#)
Pages 24 to 29

Reducing operational impact

We have shifted away from being a large-scale energy producer and now emit over 70% less carbon for every pound of revenue than we did in 2010.

In 2017, our total carbon emissions decreased by 19%. This was mainly due to the sale of our Exploration & Production business in Canada and two power plants in the UK. The average carbon intensity of our Central Power Generation remained relatively stable at 125gCO₂/kWh. Instead of generating power for our customers, we will now predominantly buy it for re-sale from third parties.

Meanwhile, the internal carbon footprint of our property, fleet and travel reduced 11% in 2017. The decline was achieved through planned carbon reduction activities alongside headcount reductions arising from the reorganisation of our business. Following these changes, we are reassessing our targets for both carbon intensity of Central Power Generation and internal carbon footprint (see page 220).

Total carbon emissions

2017 ⁽¹⁾	4,103,348tCO ₂ e
2016 ⁽¹⁾	5,073,320tCO ₂ e

Scope 1

2017 ⁽¹⁾	4,044,754tCO ₂ e
2016 ⁽¹⁾	4,986,299tCO ₂ e

Scope 2

2017 ⁽¹⁾	58,594tCO ₂ e
2016 ⁽¹⁾	87,022tCO ₂ e

Total carbon intensity by revenue

2017	146tCO ₂ e/£m
2016 ⁽¹⁾	187tCO ₂ e/£m

We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines – see the Basis of Reporting at centrica.com/assurance for full details.

(1) Restated due to availability of improved data.



We are a world leader for disclosure and action on tackling climate change and water scarcity



Building strong communities

We are increasing the positive impact our presence has in society by working with communities to address key issues, while contributing to the local economy.

Developing local energy markets

Through our DE&P business, we are exploring the potential for local energy markets to put communities in control of their energy, drive down bills and unlock further renewable generation.

Towards this in 2017, Centrica Innovations acquired a stake in LO3, a start-up with a focus on developing peer-to-peer power market trading and were involved in the Brooklyn local energy market in New York.

Cornwall's energy ambitions

At the end of 2016, we announced a £19 million local energy market trial in Cornwall, UK. The three-year trial will test how flexible demand, generation and storage can reduce pressure on the electricity grid, enable the growth of renewables and avoid expensive network upgrades. Since then, over 300 homes and businesses registered to get involved and in 2017, we welcomed our first business to the trial – a working farm and holiday retreat. Pioneering battery storage technology was installed to help them better manage the energy generated by their solar panels. In 2018, we expect to roll-out storage and solar panels in 100 homes and commence larger installations of storage, renewables and distributed generation across 15 businesses.

We believe our trial will not only help Cornwall realise its energy ambitions, but lead the way for the UK and other countries to do the same.



Collaborating to help communities

Our strategic partnerships are building a better future – whether it's helping vulnerable households with their energy (see page 34), or tackling bad housing and homelessness. To support these issues in 2017, we invested £156 million in mandatory, voluntary and charitable contributions. A further £10 million has been committed to start-ups developing innovative energy ideas that benefit society, helping 38,000 people since 2013.

Making a difference through our flagship partnerships

Shelter

(2012/17)

4m

people are expected to benefit from campaigning that led to changes in law relating to the UK's private rented sector, including improvements in gas and electrical safety alongside protection from retaliatory evictions

FOCUS Ireland

(2015–Ongoing)

1,000

families in Ireland have been prevented from homelessness as a result of our €1.2 million (£1 million) partnership



Children's
Miracle Network
Hospitals

(2014–Ongoing)

3.3m

lives of children and their families have been improved across North America through our support of local hospitals

Building strong communities (continued)

Boosting the economy

Our business depends on and creates value in the communities where we operate. During 2017, we generated £1,591 million in wages for our 33,140-strong workforce and we contributed £307 million in taxes. We also spent nearly £4 billion on goods and services, supporting 36,000 suppliers and thousands of jobs.

Distributed energy solutions have the potential to generate widespread economic benefits. It is estimated that these solutions could help the UK meet decarbonisation targets more effectively, saving £8 billion a year by 2030⁽¹⁾. Likewise, key sectors could save millions of pounds each year while boosting the economy (see page 34).

(1) National infrastructure commission, September 2016.

If just 50% of the UK's Industry, Healthcare, and Hospitality & Leisure sectors utilised distributed energy solutions, the potential economic benefits to the UK would be⁽²⁾:

£18.5bn

Gross value added to the economy

260,000

Jobs

1.5% boost

Economic output

(2) Centrica Business Solutions research supported by FTI Consulting, Modelling 2017.

 [Read the full report at centrica.com/economicfuture](http://centrica.com/economicfuture)

Being a good corporate citizen

We are committed to working with integrity so that we can maximise the positive impact we have in society. To support this, we launched a new Company-wide set of values and a code of conduct in 2017/18. Taken together, our Values and Our Code, demonstrate our commitment to being a responsible business and bind us together in common pursuit of our strategy and purpose.

Through Our Code, we reaffirmed that we will ensure our business partners and third parties share our dedication to eliminate bribery and corruption. We do not condone any payments we feel to be improper and take particular care when offering or receiving gifts and hospitality. We prohibit all forms of fraudulent conduct or dishonest behaviour and will report any serious matters to the relevant authorities. We also set out that we respect and uphold the fundamental human rights and freedoms of everyone who works for us, with us or lives in our local communities. As part of our response to the Modern Slavery Act in the UK, we have taken action to reduce risk relating to forced or compulsory labour in our business and supply chain.

In 2017, we assessed 138 suppliers on their social, ethical and environmental standards to guard against risks such as human rights and bribery and corruption. This resulted in an average supplier sustainability score of 56 (low risk), which is better than the multi-industry average of 44 (medium risk). If suppliers receive a medium or high-risk rating, we will consider appropriate next steps which may include collaborating to raise standards or ending our relationship and reporting the abuse.

 [Read more about our Values and Our Code centrica.com/ourcode](http://centrica.com/ourcode)

 [Read more about our Modern Slavery Statement centrica.com/modernslavery](http://centrica.com/modernslavery)



Our View on Taxation

The Group takes its obligations to pay and collect the correct amount of tax very seriously. Responsibility for tax governance and strategy lies with the Group Chief Financial Officer, overseen by the Board and the Audit Committee.

Our approach

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

We fully disclose information on ownership, transactions and financing structures to the relevant tax authorities. Our cross-border tax reporting reflects the underlying commercial reality of our business.

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

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

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

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. However, we do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

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

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

The Group's businesses are subject to corporate income tax rates as set out in the statutory tax rates on profits table. The overall tax charge is therefore dependent on the mix of profits and the tax rate to which those profits are subject.

22%

Adjusted effective tax rate (see page 50)

£102m

Corporate income tax paid

Statutory tax rates on profits

Group activities	%
UK supply of energy and services	19
UK oil and gas production	40
Norway oil and gas production	78
Netherlands oil and gas production	50
United States supply of energy and services ⁽¹⁾	35
Canada supply of energy and services and oil and gas production	26
Denmark energy services	22
Republic of Ireland supply of energy and services	12.5

As at 31 December 2017.


(1) US tax rate is 21% from 1 January 2018.

Tax charge compared to cash tax paid

	Current tax charge/(credit) £m	Cash tax paid/ (recovered) £m
UK	9	(88)
Europe	53	169
North America	(13)	21
Total	49	102

During the year, the UK received a cash refund of tax overpaid in periods prior to 2015; in Europe, Spirit Energy made a payment of tax in respect of 2016 Norwegian profits. These items contributed to differences between the current tax charge and taxes paid during 2017.

For details on the Group's effective tax rate and a breakdown between relevant jurisdictions and segments, see the Group Financial Review on pages 48 to 51.

 **Further information on the tax charge is set out in note 9**
Pages 132 to 134

 **Read more in the Group Financial Review**
Pages 48 to 51



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

Business Review

Contents

41	UK Home	44	Distributed Energy & Power
41	Ireland	45	Energy Marketing & Trading
42	North America Home	45	Central Power Generation
42	Connected Home	46	Exploration & Production
43	UK Business	47	Centrica Storage
43	North America Business		

UK Home

Our leading position in UK energy supply and services remains core to our business and we are making good progress on our transformational journey to improve customer service levels, reduce costs and develop propositions to expand and deepen relationships with households.

Delivering high levels of customer service is fundamental and total energy supply complaints fell by 224,000, or 20% per 100,000 customers, as we continued to invest in transforming customer journeys and agent training. However, the number of services complaints increased by around 31,000, or 30% per 100,000 customers, reflecting operational disruption following the centralisation of planning and dispatch activities. Our engineer customer visit net promoter score (NPS) remained high at 67 and we remain highly focused on improving customer service levels in 2018. UK Home Brand NPS reduced by 2pts to +11, reflecting the impact of our standard tariff electricity price increase in September and a broader negative sentiment surrounding UK energy suppliers.

Cost efficiency is also fundamental in allowing us to maintain a competitive pricing position. Annualised cost per home account fell by 8% compared to 2016, with efficiencies realised through our new operating model including the combination of multiple customer operations teams into one organisation, lower incoming call volumes resulting from investment in our digital platform which has made it easier to complete transactions online, consolidation of our planning and dispatch activities, and the integration of seven separate field forces into one. Our leaner, more efficient operating model has also enabled us to improve our speed to take new offers to market, for example digital, rewards and bundling.



Total energy customer account holdings fell by 1,376,000, or 10%, during 2017, including the roll-off of 967,000 low-margin collective switch and white-label fixed price tariffs. The remaining 409,000 account losses include 195,000 prepayment customers, with the remaining 214,000 reflecting market switching trends. Within this, in line with our strategy to reduce the number of customers on the Standard Variable Tariff (SVT), we saw a 14% drop in SVT account holdings and an increase in the number of customers on British Gas fixed-term tariffs. The number of services accounts was flat, with growth of 77,000 in the second half of the year reflecting an increased focus on offers targeted at higher value energy customers and the deployment of digital offers to partner channels.

Our UK services business completed nine million customer visits in 2017 and remains a source of competitive advantage in the UK given our nationwide scale which is very difficult to replicate. In 2017, we further strengthened our services offer with the UK nationwide launch of our technology-led Local Heroes on demand services platform, which plays towards the market trend of more customers seeking on demand and home emergency offers. Local Heroes provides customers with access to local tradespeople backed by a British Gas guarantee, and growth accelerated throughout 2017, with over 7,000 tradespeople signed up and 25,000 jobs now completed.

In the fourth quarter we developed new customer offers targeted at increasing customer value, including the launch of our online-only tariff, bundling energy with services or connected home products and more sophisticated risk-based services pricing. We will continue to develop these offers further in 2018. We launched British Gas Rewards in April, which uses our data to gain a deeper understanding of customer preferences and allows customers to select personalised offers, like loyalty energy days. Over 700,000 customers have signed up to date and we are already seeing greater customer engagement, with retention rates 1.5ppt higher for customers signed up to British Gas Rewards.

We continue to lead the industry in the smart meter roll-out and have now installed around five million smart meters in UK homes, providing customers with additional insight on their energy usage and bringing an end to estimated bills for customers, reducing the number of calls we receive relating to billing and meter reading queries.

Overall UK Home adjusted operating profit was up 1% to £819 million, within which energy supply profit was up 3% to

£572 million. Energy gross margin reduced by 4%, reflecting the impact of warmer weather, lower customer account holdings and the implementation of the prepayment cap which came into effect in April 2017 as a result of the Competition and Markets Authority remedies. However, these negative impacts were more than offset by strong cost efficiency progress. Services gross margin was down 10%, which includes the impact of an increase in pension costs and lower average customer account holdings through the year. However, cost efficiency progress was strong and as a result, operating profit was down by less, by 4% to £247 million.

Ireland

Our Irish business, Bord Gáis Energy, performed well in 2017, and, as in the UK and North America, we are offering a wider choice of products to our customers.

We continue to focus on customer service, with increased training, robotics process automation and enhancements to our customer-facing IT platforms all contributing to an 18% reduction in complaints. We also successfully upgraded our enterprise billing platform in the year, which will support increased digitisation over the coming years. NPS fell by 3 points to +17, reflecting a more negative customer perception of energy suppliers following the fourth quarter price increases.

Total customer account holdings fell by 13,000, or 2%, reflecting increased market competition, including from new entrants into the market. However, electricity customer account holdings increased by 7,000, or 2%, as we successfully converted more of our customers to a dual fuel offering. As in the UK and North America, we are offering a wider choice of products to our customers and having launched our range of Hive automation products in Ireland in the first half of the year, we are focused on building brand awareness around our Connected Home propositions.

Whitegate, our flexible gas fired power station, recorded another good performance, with a load factor of 85% and total generation volumes of 3,228GWh, up 3% compared to 2016.

Adjusted operating profit was up 2% compared to 2016, although down 4% in local currency. This reflects the impact of a competitive environment, which was broadly offset by cost efficiencies and good performance from our trading and power generation business. Adjusted operating cash flow was down 26% compared to 2016, which benefited from a one-off payment related to the cessation of a gas storage contract.

Business Review (continued)

North America Home

As in the UK, energy supply and services remains core to our customer offer in North America and we are well positioned to expand and deepen relationships with households.

We remain focused on improving the sustainability of our business in our chosen markets by improving customer service levels, reducing costs and developing innovative and differentiated offers.

We delivered further improvements in customer service in 2017, with additional training provided for our customer service agents to improve customer interactions, and enhancements to our digital platform enabling improved self-serve capability. These actions contributed to a 22% reduction in complaints compared to 2016, while our online reputation improved significantly. Brand NPS also increased in the second half of the year and ended 1pt higher than at the end of 2016.

Cost efficiency remains a core priority. The integration of our energy and services business combined with the disposal of non-core businesses in 2016 has allowed us to simplify our processes further, reduce headcount and consolidate office locations. We have now closed or sold a number of loss-making services businesses in non-core markets and have completed our exit from the residential solar market, which we announced in July. Centrica's participation in commercial solar in North America will continue as a part of the Distributed Energy & Power (DE&P) customer offering. Overall, annualised cost per home account fell by 2%.

The total number of energy supply accounts fell by 327,000, or 11%, during 2017. In the US North East, customer account holdings fell by 18%, driven by a competitive pricing environment and the loss of 108,000 low-margin aggregated auction customers. In Texas, customer account holdings were down 7% due to competitive pressure and a pause of door-to-door sales due to regulatory concerns. However, in the second half of the year customer retention improved in Texas, compared to the second half of 2016, reflecting higher levels of customer service and proactive renewal of customers on fixed contracts. In Canada, regulatory changes required us to cease our door-to-door sales channel which contributed to a customer account decline of 6%. However, we have now entered into a number of retail partnerships that will expand our number of sales channels. Services customer account holdings were broadly flat compared to 2016, although within this paid Direct Energy protection plans rose 18%.

We are focused on differentiating our customer offer and developing bundled propositions. Direct Energy is currently a key channel for Hive products in North America with 80,000 Hive hubs having been sold with an energy supply tariff. In 2017, 21% of energy sales were bundled with one or more product or offer, such as a protection plan or a Hive product, compared to 17% in 2016.

North America Home adjusted operating profit increased by 28% and adjusted operating cash flow was up 5%. Within this, energy supply gross margin was up 2% despite the fall in customer account holdings, reflecting our focus on more valuable customer segments, while adjusted operating profit was up 6% which includes the benefit of cost efficiencies. Services gross margin was down by 7% reflecting the closure of the solar business, which when combined with other actions taken to improve efficiency resulted in a reduced adjusted operating loss.

Connected Home

Our Connected Home business is utilising technology to provide offers that meet customer needs across the strategic pillars of peace of mind, home energy management and home automation.

It is also an important source of differentiation for our energy and services businesses and the NPS for British Gas customers who have a Hive product is 10 points higher than those who do not.

In 2017, we launched three new products, the Hive Camera, Hive Leak and, in North America, the Hive Active Thermostat with air-conditioning; while in January 2018 we launched our new camera, Hive View. These new products take Connected Home more deeply into the peace of mind pillar, as we deepen our diagnostics capability to provide additional comfort to home owners. Additional planned product, proposition and feature launches in 2018 will strengthen our customer offer further.

The full range of Hive automation products was launched in North America and Ireland during the year, while we also signed our first strategic partnership deal outside of our core energy and services markets. Our partnership with Italian energy company Eni gas e luce will provide their 8 million customers in Italy with access to the full range of Hive home automation products. We continue to integrate with other connected home eco-systems, including through our successful partnership with Amazon Echo, where 23% of our customers have used Alexa, Amazon's voice assistant, in combination with Hive.

We sold 373,000 connected hubs in 2017, taking the total number installed to 900,000. Hive products are now being sold through around 50 retailers in the UK and we have sold over 1.6 million Connected Home products in total, with the number of products per hub increasing to 1.8 by the end of 2017 compared to 1.4 at the start of the year.

We now have 94,000 customers on subscription offers or payment plans. This includes 51,000 'Boiler IQ', which uses sensors to remotely diagnose boiler faults, and 43,000 on Hive propositions including 'Welcome Home', 'Close to Home' and our heating and cooling plans in the UK, Ireland and North America. These propositions enable customers to personalise, control and interact with their home through the Hive product range.

Gross revenue increased by 27% to £42 million, reflecting increased sales of hubs and products from our more diverse product range, with gross margins remaining attractive at around 20%. Connected Home reported an increased adjusted operating loss and adjusted operating cash outflow, reflecting higher investment in product and platform development, app user experience and customer acquisition costs.



UK Business

UK Business adjusted operating profit fell significantly in 2017.

This reflects the negative impacts of additional costs resulting from commodity volatility and energy volume settlements in the first quarter of 2017, relating to 2016, warmer weather and the impact of increased competition on customer account holdings.

The combination of these factors resulted in a 30% fall in gross margin in 2017, which was only partially offset by further cost efficiencies and reductions in bad debt, the latter enabled by improved operational performance.

Operationally, UK Business delivered improved customer outcomes in 2017, with better timeliness and accuracy of customer bills. This helped drive an 8% reduction in call volumes and a 24% reduction in complaints compared to 2016. However, customer account holdings fell 64,000 or 9%, with around half the losses in Industrial and Commercial, reflecting our decision not to pursue renewal of some low value multi-site contracts, but also increasing competitive intensity. The remaining losses were of small and medium (SME) customers, reflecting competitive intensity with 67 active competitors and high levels of switching activity.

Against this competitive backdrop, we are focusing our retention and acquisition activities on the higher value SME segments, continuing to build relationships with energy brokers and improving our customer portal facilities to allow them to manage their whole portfolio online. This has led to an increase in broker-led acquisitions, which should aid our commercial performance. In 2018, we expect some recovery in gross margin given a more normal weather and commodity environment, and, combined with further cost efficiency, expect adjusted operating profit to improve towards the levels seen in 2016.

Adjusted operating profit of £4 million was down 92% in 2017, reflecting the additional costs in the first quarter, warmer weather and lower customer account holdings, partly offset by cost efficiencies and bad debt reductions. Working capital management has remained a key area of focus, and reflecting this, adjusted operating cash flow was £131 million despite the material reduction in operating profit.

North America Business

North America Business delivered a poor financial result in the second half of the year, with adjusted gross margin down 26% and adjusted operating profit down 68%.

The drivers of lower gross margin were primarily in the power retail business. Total power adjusted gross margin was down 51%, reflecting increased competitive intensity, changes to the market structure and related input costs, including higher unit capacity charges, and the impact of warmer weather on consumption and a subsequent under recovery of unitised non-commodity costs. The financial result also includes a one-off non-cash charge of £76 million (£46 million post-tax) relating to a reassessment of the historic recognition of unbilled power revenues. In addition, warmer weather reduced opportunities for gas optimisation, however, our gas retail business performed well and overall gas gross margin was slightly up.

In response to the challenges we faced in 2017, we have taken actions to drive improvements in profitability and reduce volatility in the retail power book. These include introducing a new standard product offering that more closely matches input cost recovery, completion of system enhancements to provide greater granularity of gross margin drivers, and improvements to the processes and controls around our load forecasting and risk management reporting. We also implemented several enhancements to our online customer platform during 2017, with improved response times on issue resolution and an enhanced digital journey for acquisitions helping improve the customer experience. Our digital Energy Portfolio platform, launched in the second half of 2016, has also given customers direct access to our energy expertise while providing dynamic energy procurement options. In addition, we made improvements to our billing processes and, reflecting all of this, complaints fell 38% compared to 2016 and NPS increased by 2 points to +33[†].

We continue to expand our offering into new geographies and delivered higher sales in our key growth areas of the US Mid-Continent, California and Canada. Overall, total customer account holdings reduced by 20,000 during 2017, which reflects a focus on higher value accounts and a reduction in our small business accounts. However, the competitive environment impacted our sold unit margins, down 20% in power and 22% in gas for new contracts.

An increased focus on energy efficiency has lowered power usage per customer across the industry and we are well positioned to benefit from this market trend, with North America Business working closely with the DE&P business to develop joint propositions to deepen the customer relationship. North America Business continues to be an important sales channel for distributed energy products, including Panoramic Power's wireless energy insight management solutions. Over 11,000 sensors were deployed to Direct Energy customers in 2017. We are also planning to expand our combined heat and power offering in North America following the acquisition of ENER-G Cogen in 2016, while the DE&P acquisition of demand response company REstore provides additional capability.

North America Business reported a 68% fall in adjusted operating profit and a 69% reduction in adjusted operating cash flow. Around half of the reduction in adjusted operating profit reflects the impact of the competitive environment, warmer weather, fewer optimisation opportunities and the impact of higher capacity costs, with the other half reflecting the one-off non-cash charge. In 2018, we are focused on continuing to deliver a high-quality customer experience, targeted offers for higher value customer segments and offering an increasing range of DE&P products and propositions. However, we expect to see continued competitive pressure on electricity supply margins and, therefore, growth in adjusted operating profit will be limited, after adjusting for the impact of the one-off non-cash charge.



Business Review (continued)

Distributed Energy & Power

Distributed Energy & Power (DE&P) is focused on the three Centrica Business strategic pillars of energy insight, energy optimisation and energy solutions.

Since the formation of the DE&P business unit in the second half of 2015, we have grown our capability both organically and inorganically. The targeted acquisitions of Panoramic Power, REstore and ENER-G Cogen provide us with strong positions in each of the three strategic pillars and enable us to capitalise on the global trend towards distributed energy and to develop a range of products and services to meet the needs of customers.

Our subscription-based Panoramic Power energy insight product provides customers with real-time visibility of their energy usage plus actionable insights. We now have 53,000 sensors deployed across more than 1,800 sites in 30 countries and are collecting around 14 billion data points per month. It has proved successful in changing the dynamic of the conversation with customers and provides opportunities to cross-sell energy optimisation and solutions services.

We acquired REstore, Europe's leading demand response aggregator, in November. REstore provides key capabilities in energy optimisation and provides over 850MW of flexible power capacity to grid operators. The power is aggregated from a 2.2GW flexible portfolio of industrial and commercial customers across Belgium, the UK, France and Germany and generates value for businesses through ancillary services including frequency response and capacity

markets. Through this acquisition, demand response aggregation will become a core part of our offer to customers, and DE&P's optimisation capacity has now increased to 1.9GW.

In energy solutions, DE&P now has over 1,400 long-term contracted sites and active solutions, mostly CHP-based, in 13 countries, having sold both off-the-shelf and bespoke end-to-end solutions. We have also expanded our distributed solutions offering in North America, which will be a major focus area for growth.

In total, the number of DE&P active customer sites has increased by 22% over the past 12 months, with growth particularly strong in the fourth quarter. Total secured revenue, our forward order book, increased 24% in 2017.

DE&P also includes our fleet of smaller gas fired peaking plants at Brigg, Peterborough and Barry. Construction is progressing well on our three new flexible generation projects, a 49MW battery storage facility at Roosecote and two 50MW fast response gas fired plants at Brigg and Peterborough. All three have 15-year capacity contracts starting in October 2020 and were successful in the 2018/19 T-1 capacity auction.

We continue to innovate in Local Energy Markets and now have over 300 homes and businesses registered to take part in our three-year trial in Cornwall. In 2017 we installed the largest flow battery in the UK and in 2018 we expect to install storage and solar PV in 100 homes and commence larger installations of storage, renewables and distributed generation across up to 15 businesses as part of the trial.

DE&P gross revenue increased by 6% compared to 2016, and by 34% on an underlying basis when reflecting the impacts of the disposal of the non-core building energy management systems business and the scaling back of our UK solar business following the removal of the feed-in-tariff. This growth reflects the organic increase in customer sites and a full year impact from ENER-G Cogen, which was acquired in May 2016. DE&P reported an increased adjusted operating loss of £53 million and an increased adjusted operating cash outflow of £30 million, reflecting increased headcount to build new capability and higher investment in the development of new customer propositions, sales channels and technology to drive growth. We expect DE&P to deliver continued revenue and gross margin growth in 2018, although we will continue to make further investment to drive this growth and therefore expect the current year operating loss to be similar to 2017.



Energy Marketing & Trading

Energy Marketing & Trading (EM&T) is focused on the Centrica Business strategic pillars of energy optimisation and wholesale energy.

In addition to expanding its route to market offers, global LNG presence, and trading and optimisation activities across Europe, EM&T continues to serve its core purpose of managing commodity profit risk and providing wholesale market access for the Group.

The acquisition of Neas Energy in October 2016 has enhanced EM&T's capabilities and geographical reach, as well as giving EM&T access to Neas' advanced optimisation platform, Neas Direct, which provides hedging and optimisation strategies and route to market services to our customers. EM&T now serves customers who own decentralised assets with installed capacity of around 10GW, predominantly in Denmark, the UK, Germany and Sweden, enabling them to access our expertise to capture value and provide flexibility services to their assets. Neas Energy has performed ahead of expectations since its acquisition, and it delivered a strong trading and optimisation result in 2017, particularly in the first half of the year during periods of power volatility in Northern European markets.

In LNG, we continue to expand our global business in advance of the first delivery from our contract with Cheniere, which is expected in September 2019 from the Sabine Pass facility in Louisiana. We have built a full range of LNG trading, optimisation and operations capability and continue to

transact multiple free on board and delivered ex-ship cargoes from a range of locations globally. In November, we traded our hundredth cargo outside the UK, just three years after trading our first cargo.

EM&T has major flexible legacy gas contracts and associated hedges with take or pay arrangements, where the payments are made for gas even if delivery is deferred to future periods. These were inherited by Centrica on demerger and are part of an overall profitable Centrica portfolio. The profit and cash flow from these contracts and hedges will vary between periods based on the commodity price environment and decisions we take to optimise them. In 2017, the three remaining contracts and associated hedging generated £36 million of gross margin, having made £118 million of gross margin in 2016, reflecting our take or pay strategy to maximise the contracts' value over their lives. During 2018, the two historically most profitable flexible legacy gas contracts will end, leaving one contract which expires in 2025 and is currently expected to be loss-making based on the current level of gas prices. As a result, we currently expect 2018 EM&T adjusted operating profit to be no more than half the level of 2017. This contract will continue to be managed for value and we will look to utilise the contract optionality to capture favourable market conditions as they arise.

EM&T adjusted operating profit was £104 million in 2017 compared to £161 million in 2016, although, after excluding the contribution from the flexible legacy gas contracts, adjusted operating profit associated with core EM&T activities increased by 58% to £68 million. This underlying increase reflects further strong trading and optimisation and route-to-market performance and a full year's impact of the Neas Energy acquisition. Adjusted operating cash flow increased by 32% to £262 million, predominantly reflecting the timing of cash flows associated with the flexible gas contracts between 2016 and 2017.

Central Power Generation

With our focus for growth on distributed energy and flexible generation, we made further significant progress in 2017 to reduce the scale of our Central Power Generation business in line with our strategy.

In February 2017, we completed our exit from wind power generation with the disposal of our 50% interest in the Lincs Wind Farm for £214 million. The sale resulted in an exceptional pre-tax profit on disposal of £64 million (post-tax £58 million). In August, we completed the sale of our large combined cycle gas turbines (CCGTs) at Langage and South Humber Bank and the Kings Lynn B CCGT development project for £314 million in total, which resulted in a total pre-tax exceptional profit of £8 million (post-tax £5 million), comprising an impairment write back and a small loss on disposal.

Centrica retains a 20% equity interest in the entity which owns and operates the eight nuclear stations in the UK. Our share of nuclear generation volumes remained high at 12.8TWh, the second highest output achieved since our investment in 2009. However, this was 2% lower than in 2016, reflecting slightly higher unplanned outages.

Central Power Generation adjusted operating profit was £35 million, 53% lower than 2016. This was primarily driven by a lower achieved power price for Nuclear, including the impact of historic hedging, and the impact of our exit from wind power generation. Adjusted operating cash flow was £58 million compared to an outflow of £1 million in 2016, with positive movements in working capital in comparison to 2016, more than offsetting a reduction in Nuclear dividends received.



Business Review (continued)

Exploration & Production

In line with our strategy, we now have a stronger, more sustainable Exploration & Production (E&P) business focused on Europe.

Following the disposal of our assets in Canada and Trinidad and Tobago during the year, on 8 December Spirit Energy was launched, a newly formed entity combining Centrica's E&P business with that of Bayerngas Norge. The transaction creates a leading independent European E&P business with an attractive mix of producing assets and development projects. Centrica owns 69% of the new business, and will consolidate 100% of the financial result.

The sale of our remaining portfolio of gas assets in Trinidad and Tobago was completed in May for \$35 million (£26 million), which resulted in a pre- and post-tax exceptional loss on disposal of £9 million. We announced the disposal of our interest in the joint venture portfolio of assets in Canada in June, and the sale was completed in September for C\$420 million (£255 million), leading to total pre-tax exceptional loss on disposal and impairment charges of £125 million (post-tax £109 million).

Total gas and liquids production of 61.0mmbob was down 14% compared to 2016 principally due to the sale of assets in Canada and Trinidad and Tobago. Production in Europe was down 5%, or 6% when excluding Bayerngas Norge production following the launch of Spirit Energy. This principally reflects lower production from Morecambe due to our decision to undertake onshore and offshore asset integrity works to improve safety, operational efficiency and underpin the residual life of the asset. Excluding Morecambe, the natural decline from the rest of the portfolio was fully offset by the positive impact of a first full year of production from the Cygnus gas field, which came onstream in December 2016 and is performing ahead of expectations.

We continue to focus our investment on the most attractive development options in our portfolio. Drilling operations at the Maria development commenced in the first quarter 2017, with first oil achieved in December, a year ahead of schedule and with total project costs around 20% lower than the business case. Further infill wells were drilled at Statfjord and Kvitebjørn in Norway and Chestnut in the UK. Overall, 2017 capital expenditure was down 15% to £439 million, which reflects the impact of reduced spend on Cygnus.

In 2018, we currently expect Spirit Energy to deliver production in the range 50–55mmbob while progressing several key projects. Fabrication contracts have been awarded and drilling commenced on the Oda project, which remains on target to produce first oil in 2019, while appraisal drilling will commence at the Fogelberg discovery. We also expect that a Field Development Plan for the Nova development, previously named Skarfjell, will be finalised during 2018.

Reflecting the net impact of the Spirit Energy transaction, and reserve additions on a number of fields including Chiswick and Maria not fully offsetting production during the year, Centrica's net share of 2P reserves in Europe, excluding reserves at Rough, fell by 59mmbob to 251mmbob at the end of 2017.

European total lifting and other cash production costs increased by 9% compared to 2016, with the decline in sterling and the impact of Cygnus coming on-stream more than offsetting cost efficiency benefits. Combined with lower

production volumes, this resulted in European unit lifting and other cash production costs increasing by 16%. For the period in which the assets in Canada and Trinidad and Tobago were owned, Americas unit lifting and other cash production costs were 47% higher, principally reflecting the impact of the decline in sterling, higher royalty and pipeline tariffs and the non-repeat of some one-off savings in 2016.

Adjusted operating profit of £184 million was broadly flat compared to 2016, with higher achieved prices offsetting the impact of lower production, higher cash costs and higher depreciation including that associated with Cygnus production. Adjusted operating cash flow fell 32% to £448 million despite the flat operating profit, reflecting higher decommissioning spend and higher cash taxes due to the phasing of Norwegian payments between years. The business was again free cash flow positive in 2017, generating £298 million when excluding £78 million of cash acquired



through the Spirit Energy transaction. This includes £289 million of disposal proceeds, with adjusted operating cash flow broadly offsetting capital expenditure during the year. We also recognised pre-tax exceptional impairments of £494 million (post-tax £162 million) on certain fields, predominantly due to reduction in price forecasts and changes to expected decommissioning costs following the conclusion of the triennial review, partially offset by the recognition of a PRT deferred tax asset reversing a prior period impairment. In addition, there has been a pre-tax reduction in decommissioning provisions of £86 million (post-tax £51 million) for assets previously impaired through exceptional items.

Centrica Storage

In January 2018, Centrica Storage (CSL) received consent from the Oil and Gas Authority to produce all recoverable gas reserves from the Rough asset which, following the Competition and Markets Authority's final decision to remove CSL from the Undertakings, finalises the change in Rough's status from a storage facility to a producing asset.

In June, CSL announced it had completed and analysed the results of the extensive well testing programme at the Rough gas storage asset, which had commenced in 2015 following the identification of an issue with the integrity of the wells.

CSL also announced that it had completed a review into the feasibility of returning Rough to injection and storage operations. It concluded that due to the high operating pressures involved, and the fact that the wells and facilities are at the end of their design life and had suffered a number of different failure modes while testing, it could not safely return the assets and facilities to injection and storage operations. In addition, an assessment of both the current economics of seasonal storage and the costs involved suggested that it would not be economic to continue to operate Rough as a gas storage asset by refurbishing or rebuilding the facility and replacing the wells.

As a result, CSL made all relevant applications to permanently end Rough's status as a storage facility and to produce all recoverable gas reserves. In December, the Competition and Markets Authority announced its final decision to grant CSL's request to be released from the Rough Undertakings, while in January 2018 the Oil and Gas Authority (OGA) granted its consent for CSL to produce indigenous gas and associated liquids from Rough. Separate to this application, in June, CSL also applied to the OGA to produce up to an initial 30.7bcf

of gas in order to reduce pressure on the wells to ensure that risks associated with operating the reservoir are as low as reasonably practical. Consent was granted in September, and 25bcf of gas was sold in 2017, with production continuing into 2018. CSL will now operate Rough as a gas production asset to maximise recovery of the estimated 142bcf of reserves remaining in the field as at the end of 2017. Production in 2018 is currently forecast to be 56bcf.

CSL gross revenue increased by 59% to £148 million, reflecting 2017 production volumes from the Rough asset being materially higher than the 9bcf of cushion gas sold in 2016. This was partially offset by minimal SBU revenue due to the reduced available capacity of the reservoir for the 2016/17 storage year as a result of the well integrity issues and no SBUs being sold for the 2017/18 storage year. With total costs down 9% due to lower fuel gas usage reflecting the reduced operations at Rough and reduced operating costs to reflect the changing status of the asset, CSL recognised an adjusted operating profit of £17 million in 2017 compared to a loss of £52 million in 2016. Adjusted operating cash flow was £61 million, which included working capital inflows resulting from the sale of operational stock, compared to a build-up of stock in 2016, and costs associated with decommissioning the 8A platform, which will continue into 2018.

A pre-tax exceptional charge of £270 million (post-tax £224 million) was recorded in the first half of 2017, following the June 2017 announcement to apply for a production licence and permanently end Rough's status as a storage facility. From 2018, we expect to report both Spirit Energy and CSL in one E&P reporting segment.



Group Financial Review

Group Revenue

£28.0bn

▲3%

2016: £27.1 billion

Adjusted operating profit

£1,252m

▼17%

2016: £1,515 million

Statutory profit attributable to shareholders

£333m

▼80%

2016: £1,672 million

Statutory operating profit

£486m

▼80%

2016: £2,486 million

Adjusted effective tax rate

22%

▼3ppt

2016: 25%

Statutory basic earnings per share

6.0p

▼81%

2016: 31.4p

Adjusted basic earnings per share (EPS)

12.6p

▼25%

2016: 16.8p

Final dividend per share

12.0p

0%

2016: 12.0p

Group revenue

Group revenue increased by £0.9 billion, or 3%, to £28.0 billion (2016: £27.1 billion). Gross revenue in Centrica Consumer fell by £0.6 billion, or 5%, largely reflecting the impact of lower average customer account holdings and lower consumption due to warmer weather over the year. Gross revenue in Centrica Business increased by £1.7 billion, or 13%, reflecting the full-year impact of the Neas Energy acquisition which completed in October 2016 and the impact of foreign exchange movements on North America Business revenue. Revenue from the asset businesses, Exploration & Production (E&P) and Centrica Storage (CSL), was broadly flat overall.

Jeff Bell
Group Chief Financial Officer



Operating profit

Throughout this report, reference is made to a number of different profit measures, as shown below.

Total adjusted operating profit reduced 17% to £1,252 million (2016: £1,515 million). Centrica Consumer profit fell 1% with the impact of warmer weather on consumption and lower account holdings in UK Home and North America Home, and an increased operating loss due to growth investment in Connected Home, largely offset by cost efficiencies. Centrica Business profit fell by 67%, largely reflecting the impact of warmer weather and competitive market conditions in our energy supply businesses in UK Business and North America Business, a one-off non-cash charge relating to a reassessment of the historic recognition of unbilled power revenues in North America and lower profit from flexible gas contracts in Energy Marketing and Trading (EM&T). Profit from E&P was broadly flat, with higher achieved prices offsetting lower volumes, while CSL reported an operating profit of £17 million compared to a loss of £52 million in 2016, reflecting higher gas production volumes with Rough having received permission to produce up to 30.7bcf of cushion gas to reduce pressure in the field for safety reasons.

Group finance charge and tax

Net finance costs increased to £344 million (2016: £300 million), predominantly reflecting a lower capitalised interest credit.

Business performance taxation on profit was lower at £191 million (2016: £282 million) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £197 million (2016: £298 million). An adjusted effective tax rate calculation is shown on page 50.

The Group adjusted effective tax rate reduced to 22% (2016: 25%) reflecting the mix of profits between different activities and jurisdictions and the impact of a net uncertain tax provision release of £34 million, a net petroleum revenue tax refund of £34 million and a tax credit of £34 million resulting from the restatement of deferred tax balances following the reduction in the US federal tax rate from 35% to 21%. Adjusting for these impacts and other similar, but individually immaterial items, the Group's underlying adjusted effective tax rate was 40%.

Adjusted operating cash flow

£2,069m

▼23%

2016: £2,686 million

Adjusted earnings

£698m

▼22%

2016: £895 million

Group net debt

£2,596m

▼25%

2016: £3,473 million

Operating profit

Year ended 31 December	Notes	2017			2016		
		Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit/(loss)							
UK Home		819			810		
Ireland		47			46		
North America Home		119			93		
Connected Home		(95)			(50)		
Centrica Consumer		890			899		
UK Business		4			50		
North America Business		71			221		
Distributed Energy & Power (DE&P)		(53)			(26)		
Energy Marketing & Trading (EM&T)		104			161		
Central Power Generation (CPG)		35			75		
Centrica Business		161			481		
Exploration & Production (E&P)		184			187		
Centrica Storage (CSL)		17			(52)		
Total adjusted operating profit	4(c)	1,252			1,515		
Interest and taxation on joint ventures and associates	4(c)	(7)			(48)		
Group operating profit/(loss)	4(c)	1,245	(759)	486	1,467	1,019	2,486
Net finance cost	8	(344)	–	(344)	(300)	–	(300)
Taxation	9	(191)	352	161	(282)	(242)	(524)
Profit/(loss) for the period		710	(407)	303	885	777	1,662
Less (profit)/loss attributable to non-controlling interests		(12)			10		
Adjusted earnings		698			895		

Group Financial Review (continued)

Group tax charge

Year ended 31 December	2017						2016		
	UK £m	Non-UK £m	Spirit Energy UK £m	Spirit Energy Non-UK £m	Spirit Energy Total £m	Group Total £m	UK £m	Non-UK £m	Total £m
Adjusted operating profit	798	278	(103)	279	176	1,252	932	583	1,515
Share of JV/associate interest	(1)	–	–	–	–	(1)	(32)	–	(32)
Net finance cost	(197)	(90)	(37)	(20)	(57)	(344)	(235)	(65)	(300)
Adjusted profit before taxation	600	188	(140)	259	119	907	665	518	1,183
Taxation on profit	62	6	(111)	234	123	191	31	251	282
Share of JV/associate taxation	6	–	–	–	–	6	16	–	16
Adjusted tax charge	68	6	(111)	234	123	197	47	251	298
Adjusted effective tax rate	11%	3%	79%	90%	103%	22%	7%	48%	25%

A breakdown of factors that have affected the adjusted effective tax rate in 2017 is shown in the table below:

Year ended 31 December	UK		Non-UK		Spirit Energy UK		Spirit Energy Non-UK		Spirit Energy Total		£m	Total %
	£m	%	£m	%	£m	%	£m	%	£m	%		
Tax at relevant statutory rate	116	19%	66	35%	(56)	40%	202	78%	146	123%	328	36%
Adjusting items ⁽¹⁾	21	–	(7)	–	3	–	21	–	24	–	38	–
Underlying adjusted effective tax charge/rate	137	23%	59	31%	(53)	38%	223	86%	170	143%	366	40%
Rate changes	–	–	(34)	–	–	–	–	–	–	–	(34)	–
Provision releases and other	(69)	–	(19)	–	(58)	–	11	–	(47)	–	(135)	–
Adjusted effective tax charge/rate	68	11%	6	3%	(111)	79%	234	90%	123	103%	197	22%

(1) Adjusting items includes non-qualifying depreciation and amortisation, upstream incentives, abandonment relief and any variance to statutory rates.

For the European E&P activities, now included within Spirit Energy, profits were made in Norway but losses were incurred in the UK, where tax relief is given at a lower effective rate than the rate applied in Norway. As a result, the Spirit Energy underlying adjusted effective tax rate was 143%.

The future underlying effective tax rate for Spirit Energy will be dependent on the mix of profits, while the underlying adjusted effective tax rate for UK operations is expected to reduce in future years as the UK corporation tax rate reduces to 17% from 2020. The underlying adjusted effective tax rate for US operations reported within non-UK is also expected to reduce reflecting the reduction in the US federal tax rate to 21%.

Group earnings and dividends

Profit for the year from business performance decreased to £710 million (2016: £885 million) and after adjusting for non-controlling interests, adjusted earnings fell by 22% to £698 million (2016: £895 million). This reflects the lower adjusted operating profit and higher net finance cost, partly offset by the lower tax charge, all as described above. Adjusted basic EPS was 12.6 pence (2016: 16.8 pence) reflecting the lower earnings and a higher number of shares in issue due to the effects of a 7% equity placing in May 2016 and the scrip dividend.

The statutory profit attributable to shareholders for the year was £333 million

(2016: £1,672 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2016 is principally due to a post-tax exceptional charge of £476 million (2016: credit of £27 million) and a lower net gain from certain re-measurements of £69 million (2016: £750 million). The Group reported a statutory basic EPS of 6.0 pence (2016: 31.4 pence).

In addition to the interim dividend of 3.6 pence per share, the proposed final dividend is 8.4 pence, giving a total full year dividend of 12.0 pence (2016: 12.0 pence).

Group cash flow, net debt and balance sheet

Net cash flow from operating activities decreased to £1,840 million (2016: £2,396 million), which predominantly reflects lower EBITDA and net working capital inflows. Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table on page 51, was down 23% to £2,069 million.

Net cash inflow from investing activities was £32 million (2016: outflow of £803 million). The change compared to 2016 is predominantly due to proceeds from net disposals in 2017 of £819 million, mainly relating to the Lincs Wind Farm, UK gas fired power stations and Canadian E&P assets. The 2016 comparator included the

acquisitions of ENER-G Cogen and Neas Energy and lower disposal proceeds.

Net cash outflow from financing activities was £1,070 million (2016: £546 million). This predominantly reflects 2016 including an inflow from the issuance of ordinary share capital following the £700 million equity placing. Equity dividends paid were lower in 2017, reflecting a higher scrip take up of the 2016 final dividend payment, financing interest was higher and repayment of borrowings were lower reflecting a lower level of debt maturing in 2017 compared to 2016.

Reflecting all of the above, the Group's net debt as at 31 December 2017 fell to £2,596 million (31 December 2016: £3,473 million), which includes cash collateral posted or received in support of wholesale energy procurement.

Net assets increased by £584 million to £3,428 million (31 December 2016: £2,844 million). Total assets decreased by £1,226 million, with lower non-current assets predominantly reflecting the pre-tax impact of impairments and disposals. Total liabilities decreased by £1,810 million, including the impact of lower decommissioning provisions resulting from the E&P disposals, lower derivative financial instrument balances, and a reduction in the net pension liability from £1,137 million at the end of 2016 to £886 million at the end of 2017. Further details on pensions can be found in note 22.

Operating cash flow

Year ended 31 December	2017 £m	2016 £m
Net cash flow from operating activities	1,840	2,396
Add back/(deduct):		
Net margin and cash collateral inflow ⁽¹⁾	(136)	(177)
Payments relating to exceptional charges	176	273
Dividends received from joint ventures and associates	58	117
Defined benefit deficit pension payment	131	77
Adjusted operating cash flow	2,069	2,686

(1) Net margin and cash collateral inflow includes the reversal of collateral amounts posted when the related derivative contract settles.

2017 Acquisitions and disposals

In line with its strategy to reduce its scale in E&P and Central Power Generation, in February the Group completed the disposal of the Lincs Wind Farm for £214 million and in May completed the disposal of its remaining Trinidad and Tobago gas assets for £26 million. In August, the Group completed the disposal of its UK gas fired power stations at Langage, South Humber Bank and Kings Lynn B, for £314 million and in September, the Group completed the disposal of its 60% interest in its portfolio of Canadian E&P assets for £255 million.

In November, the Group acquired Europe's leading demand response aggregator, REstore, for £62 million. The business brings key capabilities in asset optimisation and demand response aggregation is expected to become a core part of our distributed energy offer to customers. The business will form part of the DE&P business unit.

In December, Spirit Energy was formed, combining the Group's remaining European E&P business with that of Bayergas Norge AS. The Group owns 69% of the business.

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

Exceptional items

A net exceptional pre-tax charge of £884 million was recognised in 2017 (2016: £11 million).

The Group recognised net impairments of £408 million on E&P assets. It recognised £494 million of impairments predominantly due to a reduction in price forecasts and changes to decommissioning costs following the conclusion of the triennial review. It also recognised an £86 million write-back of decommissioning provisions for assets previously impaired.

Following the announcement in June 2017 that the Rough facility could not be safely returned to injection and storage operations and CSL would instead apply for a production licence for the remaining cushion gas, a pre-tax impairment charge of

£270 million was recorded in the half year results.

The Group recognised a £64 million gain on disposal of the Lincs Wind Farm joint venture and a net gain of £8 million relating to the disposal of its CCGT power stations.

The Group recognised a £9 million loss on disposal of its remaining portfolio of gas assets in Trinidad and Tobago and a total net charge of £125 million relating to the disposal of its Canadian E&P assets.

As a result of the Group's strategic review announced in 2015, the Group incurred a further £144 million of restructuring and business change costs in 2017 in implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses, transformation spend and consultancy costs, as well as costs associated with setting up the Spirit Energy business and changing the operating model for CSL.

These charges generated a taxation credit of £408 million (2016: £38 million). Total net exceptional charges after taxation were £476 million (2016: credit of £27 million).

Further details can be found in note 7.

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 IAS 39. 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. The operating profit in the

statutory results includes a net pre-tax gain of £125 million (2016: £1,030 million) relating to these re-measurements, or £69 million after tax (2016: £750 million). The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The 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. See note 7 for further details.

Events after the balance sheet

On 15 January 2018, Centrica Storage was granted consent from the Oil and Gas Authority to produce indigenous gas and associated liquids from Rough, confirming transition from a storage operation to one of production on 17 January 2018.

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

Risk and capital management

The Group's principal risks and uncertainties are set out on pages 52 to 62. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3. Details on the Group's capital management processes are provided under sources of finance in note 24(a).

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.


Our Principal Risks and Uncertainties

Understanding those Risks that impact our Strategy

The fundamental trends outlined in our strategy on pages 10 and 11, including the decentralisation of energy systems, shift of power to consumers and increasing digitisation, present both opportunities and threats. Identifying and managing these risks is critical to delivering our strategy. The Group Priorities, as laid out below, are the lens through which we assess our risks and drive discussions around the level of risk we need to take and the requirements of our System of Risk Management and Internal Control.

Our Group Priorities

-  Safety, compliance and conduct
-  Customer satisfaction and operational excellence
-  Cash flow growth and strategic momentum
-  Cost efficiency and simplification
-  People and building capability

 [Read more about Our Strategy](#)
Pages 10 to 11

Strengthening our System of Risk Management and Internal Control

Following our Strategic Review in 2015, we refreshed our approach to risk management. In 2017 we focused on embedding this improved process aligned with the new operating model to ensure it makes a positive contribution to effective decision-making and business growth, while ensuring we successfully manage risks. In particular, as we have moved into new geographies, we have sought to ensure we are addressing risks associated with operating in those jurisdictions.

Each business unit and Group function is responsible for identifying and assessing its significant risks within the context of our Principal Risks. For each risk, they consider both the potential impact to the Group and the likelihood of occurrence on an inherent and residual basis. The Executive Committee then considers these perspectives alongside broader external and internal factors to create a Group-wide set of prioritised risks.

- **We categorise our risks as:**
 - **Risk Requiring Standards (RRS):** Risk with negative impacts that we control through Standards and Management Systems, for example process safety or data security.
 - **Risk Requiring Judgement (RRJ):** Risk that we choose to take in order to execute our business strategy, for example new products or business improvement opportunities.
 - **External Risk:** Risk that requires a focus on scenario and contingency planning with little or no ability to reduce likelihood, for example extreme weather or geopolitical turbulence.

On an annual basis, we evaluate our System of Risk Management and Internal Control, learning from any control incidents that have arisen, to ensure we are mitigating risks in line with our risk appetite.

“ **Our Enterprise Risk Framework is established to focus attention on those risks that enable us to deliver our strategy. It’s critical we take an appropriate level of risk within the boundaries we establish through Delegations of Authority and Policies and Standards to manage the downside impact, whilst driving upside returns.** ”

Carolyn Clarke
Group Head of Audit,
Risk and Control

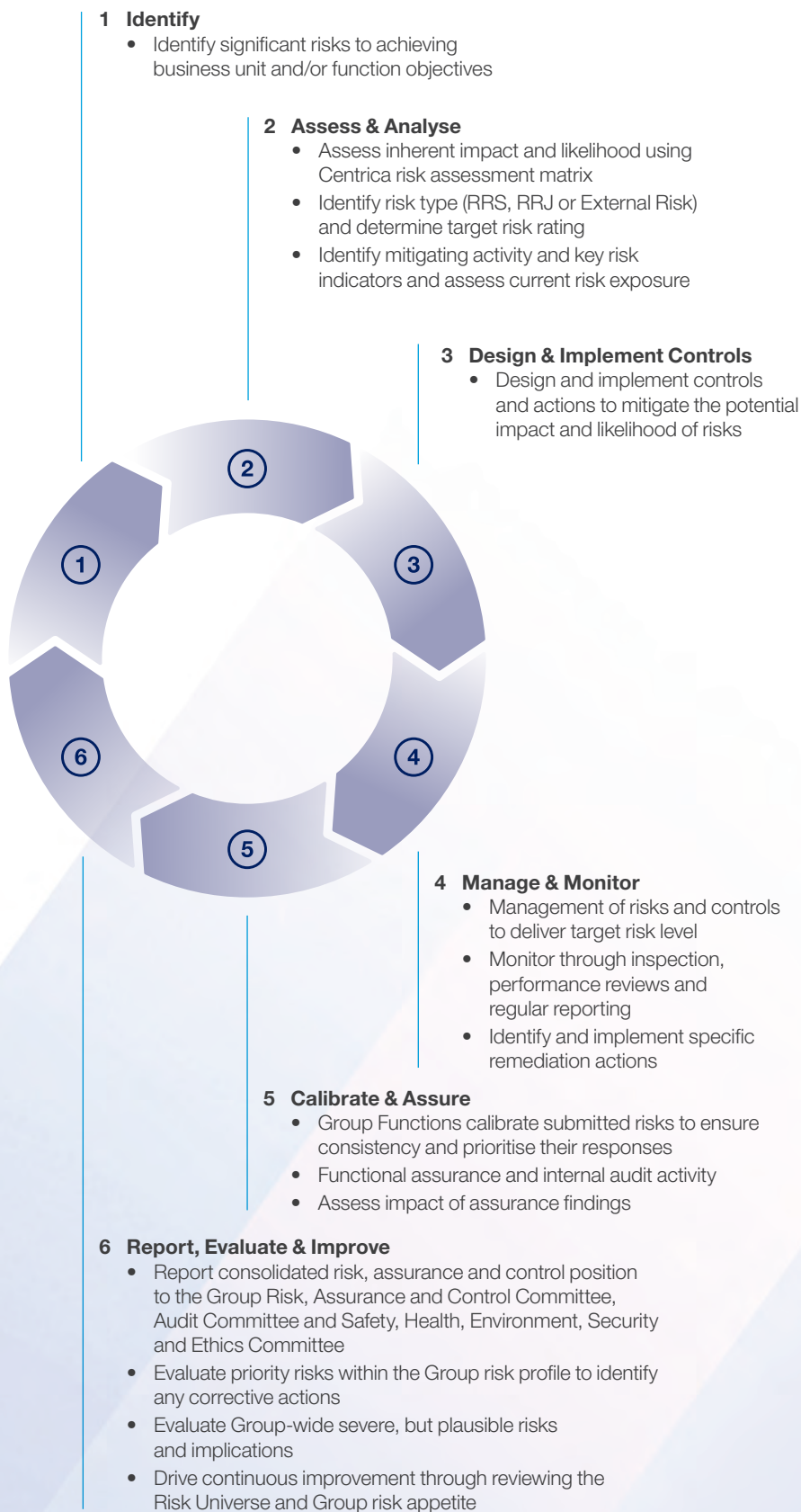
Determining the risk we would like to take

The Board approves statements of risk appetite associated with each Group Priority. These statements provide a framework to guide our risk mitigation activities and to drive the appropriate level of risk taking:

- **Safety, compliance and conduct:** Our appetite for taking risk in this area is as low as reasonably practicable in relation to: ensuring the safety of our people, customers and communities; conducting our business operations in compliance with laws and regulations; and managing our financial reporting risks.
- **Customer satisfaction and operational excellence:** We have a moderate risk appetite to allow us to pursue innovative opportunities. We are driven to satisfy the changing needs of our customers.
- **Cash flow growth and strategic momentum:** We have a moderate to high risk appetite for seeking opportunities to deliver cash flow growth and our target return on capital.
- **Cost efficiency and simplification:** We have a low risk appetite for failing to implement and manage improvements sustainably and in a rigorous and systematic way.
- **People and building capability:** We accept a moderate level of risk in finding ways to attract, develop and reward people with the diverse capabilities needed to deliver our ambitions. However, we have a low risk appetite for rewarding and retaining people who fail to demonstrate our Values.

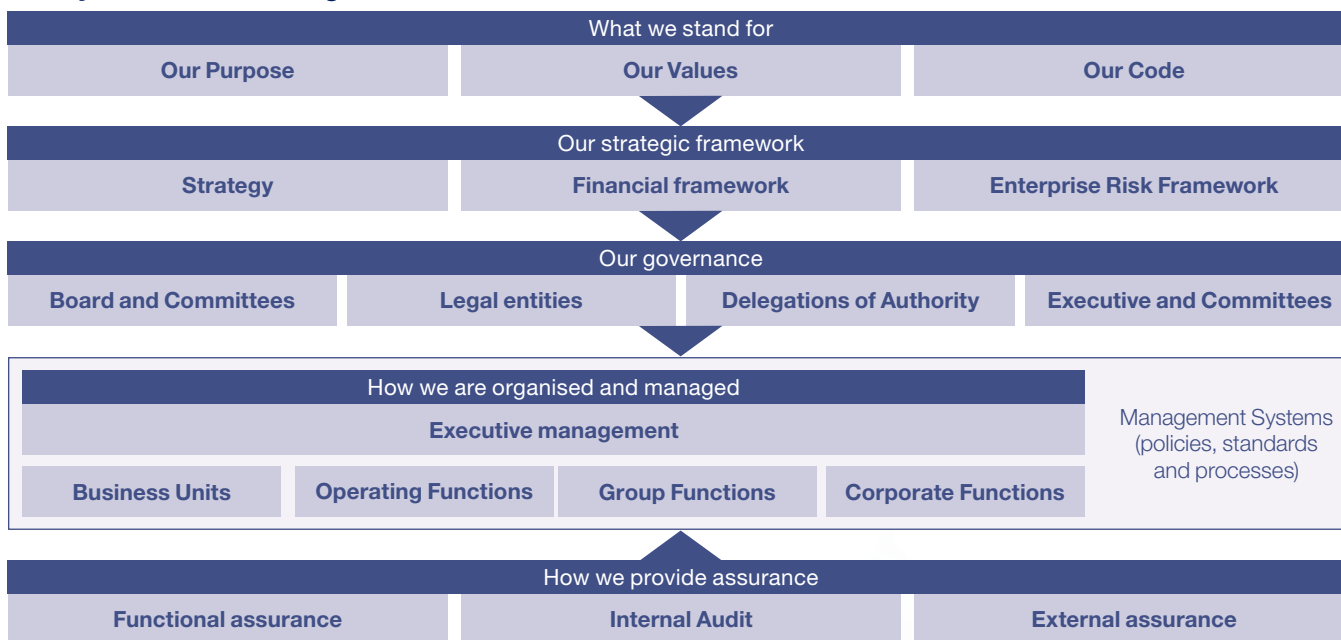
Evaluating Risks through our Enterprise Risk Framework

Our Enterprise Risk Framework is designed to enable us to identify, evaluate and mitigate our risks appropriately. It comprises six steps:



Our Principal Risks and Uncertainties (continued)

Our System of Risk Management and Internal Control



Mitigating risks through the System of Risk Management and Internal Control

Risk management is a key pillar of the overall governance and management framework for the Group. Our System of Risk Management and Internal Control comprises the following elements that are assessed annually for effectiveness:

- **What we stand for:**
 - **Our Purpose:** We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers.
 - **Our Values:** The new values were rolled out globally in September 2017 to underpin our strategy and Priorities.
 - **Our Code:** This was launched in early 2018 to replace our Business Principles and provides the foundation for how we operate.
- **Our strategic framework:**
 - **Strategy:** Set out in July 2015 and aligned throughout the organisation by the five Group Priorities.
 - **Financial framework:** Sets out parameters and targets within which we operate to guide our strategic planning and financial decision-making.
 - **Enterprise Risk Framework:** Incorporates the Principal Risks within the Group Risk Universe, as outlined on pages 55 to 60.
- **Our governance:**
 - **Board and Committees:** Structured to effectively dispense with required duties and through which our Principal Risks are monitored.

- **Legal entities:** Subsidiary company legal entities with Boards of Directors required to meet legal and regulatory obligations.
- **Delegations of Authority:** Accountability is delegated through the organisation to individuals in accordance with risk appetite.
- **Executive and Committees:** Oversight to ensure appropriate planning and performance management.
- **How we are organised and managed:**
 - **Management Systems:** The detailed policies, standards and processes establishing the mandatory requirements and which are required for the systematic management of related risks.
- **How we provide assurance:**
 - **Functional assurance:** Ensuring policies and standards are complied with through monitoring and testing activities performed by individuals who are not directly responsible for the operation of the controls.
 - **Internal Audit:** Providing confidence to the Board, via the Audit Committee, that Centrica has appropriate risk management procedures and effective controls in place.
 - **External assurance:** Auditing of the Group's Annual Report and Accounts prior to reporting, which includes assessment of internal controls relevant to financial reporting.


“ The vision behind our Enterprise Risk Framework was to enable us to operate within an acceptable risk envelope and make risk-informed decisions in pursuit of our strategy. Identification and management of risk is part of the day-to-day responsibility of all our staff and a feature of all our business activities. ”



Alison Hill
Group Head of Enterprise Risk

Principal Risks




The Group Risk Universe is made up of a holistic framework of Principal Risks, laid out below. The Board makes a robust assessment of these Principal Risks, considering future performance and our ability to deliver the strategy, including solvency and liquidity risks. For each Principal Risk, we discuss the nature of the risk, the risk climate and the impact on our Group Priorities. Each Principal Risk is overseen directly by the Board or one of its Committees, with the Board retaining overall responsibility for risk across the Group.




Risk climate movement against prior year

-  Risk has increased in likelihood and/or impact
  Risk is at similar level
  Risk has decreased in likelihood and/or impact




Description	Potential impacts	Mitigation
<p>1 Political and Regulatory Intervention Risk of political or regulatory intervention such as the adoption of blanket price caps in the UK energy supply market, changes to the political or regulatory landscape, or failure to influence that change.</p> <hr/> <p>External Risk</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Changes in government and regulatory oversight, specifically relating to the Consumer Divisions markets in the UK and North America, such as the developments in UK market regulation during 2017, could erode our profit margins through price caps, or through additional obligations that increase operating costs. The UK's decision to exit the European Union and wider political changes in the markets we operate in present risks relating to changing policies in relation to the energy market change and carbon emissions.</p>	<ul style="list-style-type: none"> • We are active in contributing our views on the development of the markets in which we operate and in discussions with political parties, regulatory authorities and other influencers. • We are committed to an open, transparent and competitive UK energy market that provides choice for consumers. In November, we announced seven unilateral steps we would take and recommended a series of broader market reforms (as detailed on page 18). • The UK is due to exit the European Union within two years of Article 50 being triggered in March 2017. We have a dedicated Brexit project group which is working to understand and assess the many Brexit-related issues which could impact the Group and our customers. • We accept that we may be the subject of regulatory scrutiny that could result in stakeholder concerns. We co-operate fully with any enquiry or investigation and take measures to react as quickly as possible.
<p>2 Financial Market Risk of financial loss due to our exposure to market movements, including commodity prices, inflation, interest rates and currency fluctuations.</p> <hr/> <p>External Risk with elements that are Risks Requiring Judgement</p> <hr/> <p>Governance oversight: Board and Audit Committee</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Our exposure to adverse price movements in commodity markets, due to our large upstream and downstream positions, could impact profitability and cash flow generation across the business. Financial market risk is taken on by Energy Marketing & Trading (EM&T) as part of the proprietary trading business. Increased volatility in commodity prices could provide more opportunities but also give rise to higher collateral costs and/or additional credit risk for both EM&T and North America Business.</p>	<ul style="list-style-type: none"> • We have hedging strategies in place to mitigate exposure to commodity and financial market volatility. • Financial risk is reviewed regularly by the Group Finance Function and the Group Risk, Assurance and Control Committee to assess financial exposures and compliance with risk limits. Regular review is also undertaken by the Audit Committee. • As we move into new trading arrangements, including the continued expansion of our LNG business, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • Our business units have risk measures, policies and monitoring commensurate with the activities and risks that they manage, and we invest in our systems to further automate our control environment.




Our Principal Risks and Uncertainties (continued)

Description	Potential impacts	Mitigation
<p>3 Health, Safety, Environment and Security (HSES) Risk of failure to protect the health, safety and security of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change.</p> <hr/> <p>Risk Requiring Standards</p> <hr/> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Safety, compliance and conduct</p>	<p>Our operations have the potential to result in personal or environmental harm, or operational loss. Significant HSES events could also have regulatory, legal, financial and reputational impacts that would adversely affect some or all of our brands and businesses.</p>	<ul style="list-style-type: none"> • We undertake regular reviews and have assurance processes in place with reporting to the HSES Committee on a quarterly basis and full discussion of all issues arising. • The HSES management system is used to manage our controls, focusing on areas of concern including process safety, driving and working at heights. • We continue to invest in training to ensure we maintain safe operating practices. During 2017 all senior leaders took part in an HSES leadership event. • Security intelligence and operating procedures, as well as crisis management and business continuity plans, are regularly evaluated and tested. • Significant Centrica representation on Board Committees and establishment of a Shareholder Office to ensure that mitigation of HSES risks remains a priority within the new joint venture organisation, Spirit Energy. • We actively engage with climate change bodies and NGOs to offer our perspective, understand the direction of potential future actions, and assess our readiness to manage through change. • A description of how we manage our environmental risk is described on page 36.
<p>4 Strategy Delivery Risk that we do not deliver our strategy due to insufficient capability to execute it in line with plan or failure to adapt quickly enough to respond to changes in the external environment. In our bottom-up process of risk reporting, this is a key area of focus for our business units and functions.</p> <hr/> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Successful delivery of our strategy requires delivering the energy and services our customers desire in a way that satisfies their needs in a competitive market place. Failure to identify changing trends in customers' needs, adapt to changing market and competitive environments, deliver major transformation programmes to be an efficient supplier, and build the necessary capabilities to compete, have the potential to impact our cash flow growth and value creation goals.</p>	<ul style="list-style-type: none"> • The Board sets and approves the Group's strategy, setting the strategic direction and confirming the strategic choices made by the business. Regular reviews are conducted on changes in market trends and the competitive environment, and the business response. • We have a clear financial framework to ensure capital is allocated in line with the strategy and that balance sheet strength and return on capital boundary conditions are met. • The Board and Executive Committee regularly review the capabilities required to deliver on the strategy and address gaps as they arise.
<p>5 External Market Environment Risk that events in the external market or environment could affect the delivery of our strategy.</p> <hr/> <p>External Risk</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>We operate in highly competitive and changing markets, where customer behaviour, needs and demands are evolving due to digitisation, energy efficiency, climate change, government initiatives, and the general economic outlook. In addition, we are subject to global market volatility in our upstream businesses in commodity markets.</p>	<ul style="list-style-type: none"> • We focus on understanding customer segments and their needs, aiming to design products and offerings that are attractive and competitive. • We are increasing our investment in areas like Connected Home and Distributed Energy & Power that represent emerging customer needs and reinforce our existing energy supply and services offerings, putting customers more in control of their energy use as described on page 33. • Regular analysis is undertaken of commodity price fundamentals and their potential impact on our business plans and forecasts.



Description	Potential impacts	Mitigation
<p>6 Brand, Trust and Reputation Risk that our competitive position is compromised by poor standards of fairness and transparency and by failing to protect our brands.</p> <hr/> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Customer satisfaction and operational excellence</p>	<p>Failure to appropriately manage brand perception, media attention and campaign or pressure groups could have a negative impact on consumer sentiment and contribute to a fall in overall customer numbers.</p> <p>Failure to be fair and transparent in all our operations could cause reputational damage and if standards are particularly low, lead to legal action.</p>	<ul style="list-style-type: none"> • We regularly monitor and review our level of customer service, aiming to deliver a fair, simplified and transparent offering to all of our consumers. Operational processes are in place to address failure in service and customer complaints. • We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry. • We review and monitor changes in our customer brand position through net promoter score (NPS) and other metrics as described on page 31. • We consider our impact on society as part of being a good corporate citizen. This is set out in the Building strong communities section on pages 37 to 38.
<p>7 Change Management Risk of failure in the identification, alignment and execution of change programmes and business restructuring.</p> <hr/> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cost efficiency and simplification</p>	<p>If change projects are not aligned to strategic objectives or not implemented appropriately, the expected benefits may not be realised.</p> <p>If acquisitions are not integrated effectively the business benefits may not be realised.</p>	<ul style="list-style-type: none"> • Significant change management programmes are reviewed as a regular aspect of Group and business unit performance reviews, and are regular agenda items of Executive Committee meetings. • Change activity is managed through a network of programme offices providing oversight and governance at the appropriate level. • We have dedicated change capability at Group and business unit level to monitor the realisation of benefits, the prioritisation of efforts and to share best practice. • Our people capability is continually reviewed and developed to ensure we have the right skills to deliver our plans. • We have post-merger integration guidelines in place to integrate acquired businesses.
<p>8 Legal, Regulatory and Ethical Standards Compliance Risk of failure to comply with laws and regulations and behave ethically in line with Our Code, resulting in reputational or financial damage. This includes market conduct, customer conduct, data protection and financial crime risk.</p> <hr/> <p>Risk Requiring Standards</p> <hr/> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Safety, compliance and conduct</p>	<p>Our operations are the subject of intense regulatory focus and we seek to deliver the highest standards in compliance. We recognise that any real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could also result in fines, penalties or other interventions.</p>	<ul style="list-style-type: none"> • Regulatory compliance monitoring activities are performed by a single Group-wide function to drive consistency and quality. • Control frameworks are in place in the UK and in development in other markets to ensure that the customer experience is delivered in line with our Customer Conduct guidelines. This is managed through a Group-wide practice group. • The Market Conduct practice group shares best practice with standardised controls and processes and aligns mitigation activities where possible. • Data is a strategic asset and its protection is a priority under a Steering Group led by the Executive Director, Centrica Consumer. • Our Code was launched globally in January 2018 to underpin the new values introduced in 2017. This sets the standard for behaviour across the Group. • Where we enter new territories via acquisition or organic growth we ensure country risks are identified and managed appropriately, including anti-bribery and corruption risk and compliance with local legislation.

Our Principal Risks and Uncertainties (continued)

Description	Potential impacts	Mitigation
<p>9 Asset Development, Availability and Performance Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise performance delivery.</p> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Customer satisfaction and operational excellence</p>	<p>Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance. Operational integrity is critical to our ability to deliver performance in line with the strategic objectives.</p>	<ul style="list-style-type: none"> • Capital allocation and investment decisions are governed through the Investment Committee, the final decision resting with the Group Chief Executive and/or Board of Directors. • Group-wide minimum standards are applied to all assets, whether operated or non-operated to give confidence in their integrity. • Maintenance activity and improvement programmes are conducted in all asset-based businesses to maximise effectiveness and production levels.
<p>10 Information Systems and Security Risk of reduced effectiveness, availability, integrity or security of IT systems and data essential for Centrica's operations.</p> <p>Risk Requiring Standards with elements that are Risks Requiring Judgement</p> <hr/> <p>Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Safety, compliance and conduct</p>	<p>Our substantial customer base and strategic requirement to be at the forefront of technology development, means that it is critical our technology is robust, our systems are secure and our data protected. Sensitive data faces the threat of misappropriation, leading to potential financial loss and/or reputational damage to the Group.</p> <p>Failure to deliver IT solutions in support of the prioritised objectives and change programmes in the business would have consequences both for our organisational transformation and in some cases, our compliance obligations.</p>	<ul style="list-style-type: none"> • Our information security strategy seeks to integrate information systems, personnel and physical aspects in order to prevent, detect and investigate threats and incidents. • We engage with key technology partners and suppliers, to ensure potentially vulnerable systems are identified. • Regular controls testing and security patching around our core systems is undertaken and our controls are further tested periodically by outside experts. • Strengthening of the Chief Information Security Officer (CISO) role to oversee the development of standards, controls and assurance across the Centrica estate. • We regularly evaluate the adequacy of our infrastructure and IT security controls, undertake employee awareness and training and test our contingency and recovery processes, recognising the evolving nature and pace of the threat landscape. • Established governance bodies to oversee plans to comply with new requirements including the European General Data Protection Regulation (GDPR).
<p>11 Financial Processing and Reporting Risk of errors or losses arising from the processing and reporting of financial transactions for internal and external purposes. This includes potential errors such as the reassessment of unbilled power revenues in our North America Business Unit of £46 million, reported in our November 2017 trading update.</p> <p>Risk Requiring Standards</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Safety, compliance and conduct</p>	<p>The increasingly complex financial accounting landscape, including new financial reporting standards, increases the likelihood of errors being made in the application of accounting judgements.</p> <p>The potential for failures in core controls around critical processes increases in a period of significant change. As Finance continues to implement the functional transformation programme, the risk of control degradation could increase and this is an area of significant focus.</p>	<ul style="list-style-type: none"> • Our financial control framework incorporates our financial controls and management self-assessment compliance, with progress being made to improve the use of systems and reduce the reliance on manual controls. • We have implemented a revised balance sheet review and reconciliation procedure to target minimising control gaps arising in our underlying systems and ensure that issues are detected on a timely basis. • We undertake detailed testing and evaluation of the effectiveness of our controls in response to critical financial risks and report to the Financial Risk, Assurance and Control Committee quarterly. • Controls improvement is a key objective of the Finance transformation programme, with oversight of delivery of this objective provided by the Audit Committee.

Description	Potential impacts	Mitigation
<p>12 Business Planning, Forecasting and Performance Management</p> <p>Risk that plans and forecasts may not be deliverable or may fail to drive efficient and effective performance and the risk of failures in performance reporting. This includes the risk that we do not quickly respond to and reflect performance management issues in any of the business units as and when they arise.</p> <hr/> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>We prioritise how we use our resources based on our business plans and forecasts. Failure to accurately plan and forecast, taking into account the changing business environment, could result in sub-optimal decisions and failure to realise anticipated benefits.</p>	<ul style="list-style-type: none"> • Annual planning processes are subject to scrutiny and challenge with respect to underlying market trends, competitive threats and organisational capability and delivery from the Executive Committee and the Board. • Group Functions have adopted standardised planning processes in support of the business priorities, driving improved integration of plans. • Quarterly performance review meetings involving the Executive Committee enable the review of performance against forecasts, ensuring that mitigating actions or revisions are developed and implemented.
<p>13 People</p> <p>Risk that we cannot attract or retain employees to ensure we have the appropriate capabilities to deliver our strategy. There is also the potential risk of industrial action in our Consumer businesses.</p> <hr/> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: People and building capability</p>	<p>In challenging conditions, it is critical that we attract and retain key capabilities across the business. The consequence of not being able to fulfil key roles could have a detrimental impact on our ability to meet our strategic objectives.</p> <p>The risk of industrial action in our businesses would have a potential impact on customer service levels and retention.</p> <p>We require the right behaviours from our leaders and employees to deliver our business strategy in accordance with our Values and Our Code.</p>	<ul style="list-style-type: none"> • We continue to evolve a clearly defined people strategy based on culture and engagement, equality and wellbeing, talent development, training and reward and recognition. • We regularly review organisational capability in critical business areas, reward strategies for key skills, talent management and learning and development programmes through external benchmarking. • We conduct an annual survey of employee engagement and take seriously the messages arising with a plan of actions. • The Executive Committee has clear oversight through regular discussions of the people-related challenges inherent in our transformation programme. • We engage with trade unions on restructuring and issues that could impact terms and conditions with clear and open processes to promote an environment of trust and honesty. • Our Code was launched in early 2018. This sets the expectations for all employees, replacing the Business Principles.
<p>14 Customer Service</p> <p>Risk of failure to consistently meet the expectations of our customers through the customer lifecycle.</p> <hr/> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Customer satisfaction and operational excellence</p>	<p>The delivery of high quality customer service is central to our business strategy. With the entry of new competitors to the market, customers are increasingly likely to switch if they face an unacceptable customer experience.</p> <p>Remaining at the forefront of digital developments and innovating to provide choice and control for our customers is critical. This risk faces increased scrutiny as political and regulatory attention focuses on introducing competition by applying pressure over pricing strategies.</p>	<ul style="list-style-type: none"> • Customer and Field Operations teams monitor customer service levels, ensuring enquiries are answered in a timescale and manner acceptable to the customer, complaint levels are minimised, and that customer satisfaction is reviewed at all stages of the customer journey. • Leadership teams in our front-line businesses establish accountability for specific aspects of the customer journey and assess performance against agreed metrics weekly. • Performance parameters are monitored on a weekly basis for all third-party service providers involved in the front-line and back office customer service process. • Customer service agents are quality assessed for consistency with a rigorous training and performance management programme, and a structured performance management process is in place for field teams. • We operate an environment of continuous improvement, incorporating an accredited programme (STAR), and use root cause analysis of complaint and NPS insight to continuously improve our service delivery.

Our Principal Risks and Uncertainties (continued)

Description	Potential impacts	Mitigation
<p>15 Balance Sheet Strength and Credit Position Risk that the balance sheet may not be resilient with implications for our credit rating, liquidity risk and long-term financial obligations.</p> <hr/> <p>Risk Requiring Judgement</p> <hr/> <p>Governance oversight: Board and Audit Committee</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Cash flow growth and strategic momentum</p>	<p>Failure to operate within the Group's financial framework resulting in risk to maintaining our target credit rating, impacting our access to cost effective capital and trading arrangements.</p> <p>Long-term financial obligations may increase in value due to factors both inside and outside of our control, for example pension schemes, resulting in additional funding required to meet our obligations.</p>	<ul style="list-style-type: none"> • We assess available resources on a regular basis and this analysis underpins our going concern assumption and viability analysis as described on pages 61 and 62. • Significant committed facilities are maintained with sufficient cash held on deposit to meet working capital fluctuations as they arise. • Counterparty exposures are restricted through a Group Credit Limit policy which is regularly reviewed and adjusted as necessary. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy. • We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment, as described as part of the Group Financial Review on pages 48 to 51 and in note 3(b) to the Financial Statements.
<p>16 Procurement and Supplier Management Risk of failure to source responsibly and to co-ordinate and collaborate with supply chain partners to ensure value delivery and continuity.</p> <hr/> <p>Risk Requiring Judgement with elements that are Risks Requiring Standards</p> <hr/> <p>Governance oversight: Board</p> <hr/> <p>Risk climate: </p> <hr/> <p>Priority: Customer satisfaction and operational excellence</p>	<p>Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply not only with contractual terms, but also legal, regulatory and ethical business requirements.</p>	<ul style="list-style-type: none"> • All suppliers are required to sign up to our 'Ethical Procurement' policies and procedures. • Financial health, risk and anti-bribery and corruption due diligence and monitoring is implemented in supplier selection and contract renewal processes. • Audits are conducted in relation to third-party operation of jointly operated Exploration & Production assets. • We review the ethical conduct of our suppliers including a programme of supplier visits to provide additional assurance over practices employed, including respect for human rights, as part of being a good corporate citizen as laid out on page 38. • Procurement practices have been reviewed across the Group and a global Procurement Policy and Standard was implemented from 1 January 2018.

Viability statement disclosure

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects for the Group over a significantly longer time period than the 12 months required in adopting the going concern basis of accounting.

In making this assessment the Directors take into account the liquidity analysis performed in relation to the Group's net debt and available credit facilities, current business performance, the Group annual plan for 2018 and strategic plan for the years beyond this, potential risks and uncertainties in the delivery of the strategic plan through a number of modelled scenarios and available mitigating actions. In conducting this analysis, we model all potential significant scenarios occurring simultaneously from the first year, causing the maximum potential impact on Group debt.

Timeframe

The Board has reviewed the timeframe over which it makes this assessment and continues to believe that three years is the appropriate timeframe to assess viability. This conclusion is reached as a result of:

- alignment with detailed planning undertaken for a period of three years within the strategic planning process, which is used by the Group in assessing business performance and taking strategic decisions;
- the relatively short-term nature of some of our more significant risks, such as the potential for disruption in our customer-facing markets, where we monitor the risks and available mitigations frequently;
- the commodity markets in which the Group operates where transparent and executable pricing is generally only available for a three-year period, allowing market-based information to be used within our forecasts for this period; and
- increasing uncertainty inherent in estimations beyond this period.

In assessing the prospects of the business, the Board must balance the short-term planning horizons in the customer-facing businesses, with the longer-term requirements of our more asset-intensive businesses. Given recent divestments of our largest power generation assets and the divestment of our wind portfolio, our core business is increasingly focused on the energy supply and services markets, which are more short term in orientation and outlook. Whilst we assess viability on a three-year basis, when we consider our strategic risks (as described on pages 55 to 60), we consider possibilities that may occur outside of this time period and any resultant mitigations.

Approach

The Board has outlined the Group strategy in detail on pages 10 to 11. The Group has a strong position in its chosen markets with established brands, a highly skilled customer-facing workforce and reliable operations. The main risks to delivery of the strategy, and our approach to managing these risks, are described in our approach to our Principal Risks on pages 55 to 60. To understand the impact of these risks the Directors perform a robust evaluation, which in turn informs the assessment of viability. In making this assessment, they consider severe, but plausible, impacts where the realisation of risks is more than remote in likelihood. The potential impact is based on known consequences, historical evidence and similar events observed in the market. The liquidity analysis contains assumptions relating to the key drivers of financial performance including customer numbers, fundamental trends in energy and services, commodity prices, efficiency programmes and the shape of the future portfolio.

We also model the impact on liquidity of events such as an inability to access uncommitted financing facilities or a market stress event, such as commodity price volatility or a two-notch credit rating downgrade. Identified risk impacts are then incorporated within scenarios that are modelled, individually and collectively, to assess the impact they have on the available headroom within our ongoing liquidity analysis. The scenarios assessed as being of most significance in making the assessment of viability (and the related primary Principal Risk categories) include:

- the potential for further regulatory or political intervention resulting in a significant impact on our customer margins and our ability to retain customers (Political and Regulatory Intervention; Customer Service; Strategy Delivery; and Brand, Trust and Reputation);
- a sustained significant adverse movement in commodity prices (External Market Environment and Financial Market);
- our inability to respond to disruption from competition in the market and deliver transformation through cost savings and growth in new businesses (Strategy Delivery and Change Management);
- risks associated with keeping our people and our customers safe, incorporating potential adverse consequences of breaches in regulatory compliance obligations and the impact of a loss of containment in our upstream assets (Health, Safety, Environment and Security; and Legal, Regulatory and Ethical Standards Compliance);
- challenges relating to the security of our systems and keeping our data safe, including cyber-security and, in future, a breach of GDPR requirements (Information Systems and Security; and Legal, Regulatory and Ethical Standards Compliance); and
- a significant increase in the obligations of our pension schemes, requiring material, repeated cash injections (Balance Sheet Strength and Credit Position).

Our Principal Risks and Uncertainties (continued)

Each of the scenarios are considered individually on a gross basis, with the impact of Group-level mitigating actions incorporated following the aggregation of the individual impacts.

These risks are included as sensitivities to our liquidity analysis, and are considered by the Board as part of the approval process for this statement.

Resilience

The sources of funding available to the Group, including undrawn committed credit facilities of £3.5 billion, are set out in note 24 to the consolidated Financial Statements. The Board expects these sources, together with cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's plans. Cash flows generated during 2017 are set out in the cash flow statement and in note 24 (c) to these Financial Statements.

We then consider the Group's resilience to risk and our ability to respond to changes in market conditions to identify potential mitigating actions, such as additional restrictions and limits on capital investment, further cost reduction opportunities and the future sustainability of our dividend policy.

Conclusion

The Directors have considered all the above factors in their assessment of viability over the next three years, including the Group's strategic plan, levels of funding, scenario analysis and the principal risks and uncertainties facing the Group. The Directors have also considered the availability of mitigating actions within their control in the event that a number of simultaneous severe but plausible scenarios materialise. Based on the conclusions of this assessment, the Directors confirm that they have a reasonable expectation that no individual scenario identified or combination of identified scenarios, will impact on the Group's ability to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

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

Grant Dawson
Group General Counsel &
Company Secretary
21 February 2018

Governance

Contents

- 64** Board of Directors
- 66** Senior Executives
- 67** Directors' and Corporate Governance Report
- 78** Remuneration Report
- 90** Remuneration Policy
- 98** Other Statutory Information

Board of Directors

Full biographies can be found at centrica.com/board

C Chairman of the Board

DC Disclosure Committee

RC Remuneration Committee

Denotes Committee Chairman

AC Audit Committee

NC Nominations Committee

SC Safety, Health, Environment, Security & Ethics Committee

RICK HAYTHORNTHWAITE Chairman



C NC

Rick joined the Board as a Non-Executive Director on 14 October 2013. He was appointed Chairman of the Board on 1 January 2014 and is Chairman of the Nominations Committee.

Skills and experience

Rick has a wealth of knowledge in the energy industry and has significant board experience, both as an executive and non-executive. He led the rescue of Invensys from 2001 to 2005 and the defence, turnaround and subsequent sale of Blue Circle Industries from 1997 to 2001. He has served on the boards of Network Rail as chairman and Cookson, Lafarge, ICI and Land Securities as a non-executive director.

External appointments

Chairman of the board of MasterCard International, QIO Technologies and Arc International.

IAIN CONN Group Chief Executive



DC

Iain was appointed Group Chief Executive on 1 January 2015 and is Chairman of the Disclosure Committee.

Skills and experience

Iain possesses a deep understanding of the energy sector built up over a lifetime in the industry and has demonstrated strong commitment to customers, safety and technology. Iain was previously BP's chief executive, downstream (BP's refining and marketing division) a position he held for seven years. Iain was a board member of BP for 10 years from 2004 and had previously held a number of senior roles throughout the organisation in trading, exploration and production and the management of corporate functions such as safety, marketing, technology and human resources.

External appointments

Non-executive director of BT Group plc.

JEFF BELL Group Chief Financial Officer



DC

Jeff was appointed Group Chief Financial Officer and joined the Board on 1 August 2015.

Skills and experience

Jeff has a broad range of finance experience. He joined the Group's Direct Energy business in Toronto in 2002 where he held various senior finance positions before moving to Centrica's head office in 2008 to support the Group Chief Executive and to lead the Group Strategy team. In 2011 he was appointed Director of Corporate Finance. Prior to Centrica, Jeff worked in Toronto for both KPMG, where he qualified as a chartered accountant, and the Boston Consulting Group.

MARGHERITA DELLA VALLE Non-Executive Director



AC NC RC SC

Margherita joined the Board on 1 January 2011 and is Chairman of the Audit Committee.

Skills and experience

Margherita brings considerable corporate finance and accounting experience and she has a sound background in marketing. She was chief financial officer of Vodafone's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she worked for Omnitel Pronto Italia and held various consumer marketing positions in business analytics and customer base management before moving into finance.

External appointments

Deputy group chief financial officer of Vodafone Group Plc and a trustee of the Vodafone Foundation.

JOAN GILLMAN Non-Executive Director



NC SC

Joan joined the Board on 11 October 2016.

Skills and experience

Joan is a former executive vice president of Time Warner Cable, as well as chief operating officer Time Warner Cable Media and president, Time Warner Cable Media LLC. Prior to its acquisition by Charter Communications, Time Warner Cable was the second largest cable company in the United States, operating in 29 states and generating over \$23 billion in annual revenue. Joan led one of the company's three operating divisions, doubling revenues and overseeing the company's big data strategy.

External appointments

Director of Airgain, Inc.

MARK HANAFIN Chief Executive Centrica Business



Mark joined the Board on 14 July 2008.

Skills and experience

Mark has senior management experience across the energy value chain from exploration and production to product sales. He has excellent midstream and trading credentials as well as a strong track record in developing supply and marketing businesses. Before joining Centrica, Mark spent 21 years with Royal Dutch Shell.

External appointments

Non-executive director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

STEPHEN HESTER
Senior Independent
Director



AC NC

Stephen joined the Board on 1 June 2016 and is the Senior Independent Director.

Skills and experience

Stephen has wide-ranging experience, particularly in customer-facing businesses, together with recognised expertise in transforming business performance. He has a deep knowledge of operating within highly regulated businesses and over 30 years' experience in financial services and FTSE 100 companies. Stephen was previously chief executive officer of Royal Bank of Scotland Group plc where he led their largest ever corporate restructuring and recovery programme.

External appointments

Group chief executive of RSA Insurance Group plc.

MARK HODGES
Chief Executive
Centrica Consumer



NC RC SC

Mark joined the Board on 1 June 2015.

Skills and experience

Mark brings a strong understanding of the UK consumer market and a track record in improving business performance. He is experienced in working in a regulated environment, driving significant improvements in customer service and managing efficiency, 'offer innovation', major IT and change projects. Mark was group chief executive officer of Towergate Partnership. Prior to this he spent over 20 years with Norwich Union and Aviva plc in a variety of finance, planning and strategy roles. He was a member of Aviva's board and executive committee.

External appointments

Director of Energy UK (representing Centrica).

CARLOS PASCUAL
Non-Executive
Director



Carlos joined the Board on 1 January 2015.

Skills and experience

Carlos has held a number of senior positions in the energy industry as well as being a prominent public figure in energy geopolitics and economic and commercial development. Between 2011 and 2014 Carlos established and directed the US State Department's Energy Resource Bureau. Until August 2014 Carlos was special envoy and coordinator for international energy affairs, acting as senior adviser to the US Secretary of State on energy issues. He has also served as US ambassador in Mexico and Ukraine.

External appointments

Non-resident senior fellow at the Centre on Global Energy Policy, Columbia University and senior vice president for global energy at IHS Markit.

STEVE PUSEY
Non-Executive
Director



AC NC SC

Steve joined the Board on 1 April 2015 and is Chairman of the Safety, Health, Environment, Security & Ethics Committee.

Skills and experience

Steve has a wealth of international experience as a senior customer-facing business technology leader. He has a long track record in the telecommunications industry, in both the wireline and wireless sectors, and in business applications and solutions. Steve has worked for Vodafone, Nortel and British Telecom and is a graduate of the Advanced Management Program at Harvard University.

External appointments

Non-executive director of FireEye, Inc.

SCOTT WHEWAY
Non-Executive
Director



NC RC SC

Scott joined the Board on 1 May 2016 and is Chairman of the Remuneration Committee.

Skills and experience

Scott is a senior business leader with a mix of deep retail and consumer expertise. He has considerable knowledge gained in both the retail and insurance sectors, together with a strong understanding of operating within highly regulated businesses. Scott worked in retail for almost 30 years both in the UK and internationally and has over 10 years' experience as a non-executive director within the financial services industry.

External appointments

Chairman of AXA UK plc and senior independent director of Santander UK plc.

LESLEY KNOX

Lesley Knox stepped down from the Board on 31 December 2017 having served as a Non-Executive Director since January 2012.

Senior Executives



Full biographies can be found at centrica.com/seniorexecutives



Disclosure Committee

CHARLES CAMERON Director of Technology & Engineering and Centrica Innovations



Charles was appointed Director of Technology & Engineering on 1 January 2016 and Chairman of Centrica Innovations on 1 May 2017.

Skills and experience

Charles has extensive technology and engineering experience and has held corporate roles in marketing, planning and M&A. Before joining Centrica, he was head of technology, downstream at BP plc and was a member of the downstream executive team.

Prior to his time at BP, Charles spent 23 years with the French Institute of Petroleum and their catalyst, technology licensing and engineering service business, Axens.

GRANT DAWSON Group General Counsel & Company Secretary



Grant was appointed Group General Counsel & Company Secretary in February 1997.

Skills and experience

Grant joined British Gas plc in October 1996 and has been Group General Counsel & Company Secretary of Centrica plc since the demerger of British Gas plc on 17 February 1997. He was called to the Bar in 1982 and has spent most of his career in industry, joining the legal department of Racal Electronics plc in 1984, then STC plc as legal adviser in 1986 until it was taken over in 1991 by Northern Telecom Limited. Between 1991 and 1996, he was the associate general counsel for Nortel in Europe, Africa and the Middle East.

MIKE YOUNG Group Chief Information Officer



Mike was appointed Group Chief Information Officer on 1 November 2016.

Skills and experience

Mike brings a wide range of experience in managing global information systems functions in partnership with customer-facing units and using big data and digital technologies to drive revenue growth and improve the customer experience. Before joining Centrica he was group chief information officer with the media and digital marketing company Dentsu Aegis Network.

JILL SHEDDEN, MBE Group Human Resources Director



Jill was appointed Group Director, Human Resources on 1 July 2011.

Skills and experience

Jill joined British Gas plc as a graduate in 1988 and has since held a wide range of senior HR roles across the Group. Prior to her appointment as Group HR Director Jill was HR Director in British Gas Business, British Gas Energy and Centrica Energy. In 2017 Jill was awarded an MBE for 'services to women and equality' in recognition of her work with, amongst other organisations, the Women's Business Council.

Directors' and Corporate Governance Report

“ Good corporate governance alone cannot guarantee business performance, but it is a necessary precondition – sustainable business success is not possible without sound corporate governance. ”

Rick Haythornthwaite
Chairman



Dear Shareholder

I am pleased to confirm that your Company has fully complied with the principles and provisions of the UK Corporate Governance Code (the Code) throughout the year and the following pages set out in detail how we have done so.

I should like to begin by expressing my sincere thanks to Lesley Knox who stepped down at the end of the year after six years' service as a Non-Executive Director of Centrica. We are grateful for Lesley's wise counsel around the board table and for her excellent stewardship as chair of the Remuneration Committee. We are currently conducting a search for a new Non-Executive Director and more detail on that can be found in the report of the Nominations Committee on page 77.

2017 was another busy year for UK Corporate Governance more widely. The Corporate Governance Reform Green Paper at the beginning of the year focused on three aspects where Government saw the need for further reform – executive pay, corporate governance in large privately-held businesses, and the steps that company boards take to engage and listen to employees, suppliers and other groups with an interest in corporate performance. At the time of writing, the Financial Reporting Council (FRC) was consulting on proposed changes to the Code aimed at addressing some of these issues.

I believe that since its introduction over 20 years ago, the Code has been, and remains, the foundation of excellence in how companies are run, and has helped the UK achieve a leading position in corporate governance. The Code has been successful, however, precisely because it has always been an evolving set of best practice guidelines, not a static list of rules. We therefore welcome the latest evolution and will work to support its aims.

As I set out in my statement on pages 4 to 5 of this Annual Report, we are proposing some changes to our governance arrangements within Centrica. I have asked our Non-Executive Director Joan Gillman to undertake a review of employee engagement and, once recruited, our new Non-Executive Director to review the needs of customers, and to ensure the voice of these key stakeholder groups is heard in the boardroom. As a company with over 30,000 employees and millions of customers, these stakeholders' interests have always been integral to our discussions in Board meetings. These reviews will, however, build upon this and further sharpen our focus. I believe these steps will also work with the grain of the corporate governance reforms contemplated by Government and the FRC.

Good corporate governance alone cannot guarantee business performance, but it is a necessary precondition – sustainable business success is not possible without sound corporate governance. This section describes the governance arrangements within Centrica and I hope readers will find it interesting and informative.

Rick Haythornthwaite
Chairman
21 February 2018


Directors' and Corporate Governance Report (continued)

Our Governance Structure

The Board

The Board is responsible for promoting the overall success of the Company. In doing so, it delegates certain responsibilities to Board Committees and executive management. Details of the Board Committees and their activities during the year are set out on pages 72 to 79.

The Board delegates authority to the Group Chief Executive for the execution of strategy and the day-to-day management of the Group. The Board oversees, guides and challenges executive management in the execution of these activities.

 **Read more about Our Strategy and Our Business Model**
Pages 10 to 11 and 12 to 13.

Matters reserved exclusively for the Board

There are certain key responsibilities that the Board does not delegate and which are reserved for its consideration. The full Schedule of Matters Reserved is available on our website, but key features include:

- the development of strategy and major policies;
- approving the annual operating plan, Financial Statements and major acquisitions and disposals;






- approving interim dividend payments and recommending final dividend payments; and
- the appointment and removal of Directors and the Company Secretary.

 **Read more at**
centrica.com/role-of-the-board

Board composition and roles

Chairman	Group Chief Executive	Group Chief Financial Officer	Independent Non-Executive Directors	Senior Independent Director	Group Executive Directors
Responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards, ensuring the effective contribution of all Directors and, with support from the Group General Counsel & Company Secretary, best practice in corporate governance.	Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.	Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function.	Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process; providing constructive challenge, and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure.	Acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors, as well as shareholders as required.	Responsible for executive leadership and day-to-day management of relevant business units in support of the Group Chief Executive and the delivery of the strategy agreed by the Board.

Committees

Audit Committee	Nominations Committee	Remuneration Committee	Safety, Health, Environment, Security and Ethics Committee	Disclosure Committee
 Read more on Pages 72 to 75	 Read more on Page 77	 Read more on Pages 78 to 79	 Read more on Page 76	 Read more on Page 77

The role and responsibilities of each Committee is set out in its Terms of Reference found on the Company's website.

 **Read more at**
centrica.com/board-committees

UK Corporate Governance Code (the Code) compliance

Effective corporate governance provides an essential foundation for the long-term success of the Company. This report sets out the key elements of Centrica's corporate governance arrangements, including how we have sought to apply the principles and provisions of the Code. The Board confirms that, up to the date of this report, it fully complied with the Code.

The Board further confirms that, through the activities of the Audit and Safety, Health, Environment, Security and Ethics Committees, described on pages 72 and 76, it has reviewed the effectiveness of the Company's system of risk management and internal controls.

The Code and associated guidance are available on the Financial Reporting Council website at frc.org.uk

Board meetings

The Board held nine meetings in 2017, seven of which were in person and two by scheduled telephone conferences. Each year the Board seeks to combine one or two meetings with visits to the Group's operations and in 2017 visited the Barrow Gas Terminal in March and the Group's US Headquarters in Houston in September. Details of these visits can be found on page 71.

Board members' attendance for the year ended 31 December 2017

Rick Haythornthwaite (Chairman)	9/9
Iain Conn	9/9
Jeff Bell	9/9
Margherita Della Valle	9/9
Mark Hanafin	9/9
Joan Gillman	9/9
Stephen Hester	9/9
Mark Hodges	9/9
Lesley Knox ⁽¹⁾	7/9
Carlos Pascual ⁽²⁾	8/9
Steve Pusey	9/9
Scott Wheway	9/9

(1) Lesley Knox was unable to attend two Board meetings due to unavoidable diary clashes.

(2) Carlos Pascual was unable to attend one Board meeting due to the earthquake in Mexico.

Directors

During the year under review the Board comprised 12 Directors, of whom four were Executive and eight, including the Chairman, were Non-Executive. Lesley Knox stepped down from the Board with effect from 31 December 2017. As we announced in February 2017, Scott Wheway succeeded Lesley as Remuneration Committee Chairman in May 2017. While the Company believes strongly in the benefits of regularly refreshing Board membership, it was felt that having appointed five new Non-Executive and three new Executive Directors over the 2015 to 2016 period, no further changes to Board composition were required in 2017.

Further information on the background, experience, current tenure, Committee membership and other appointments of each Director can be found in the individual biographies on pages 64 and 65.

In line with best practice, the roles of our Chairman and Group Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these and other roles are shown in our governance structure on page 68.

During the year, the Non-Executive Directors, including the Chairman, met frequently without management present. In addition, the Senior Independent Director met with the Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

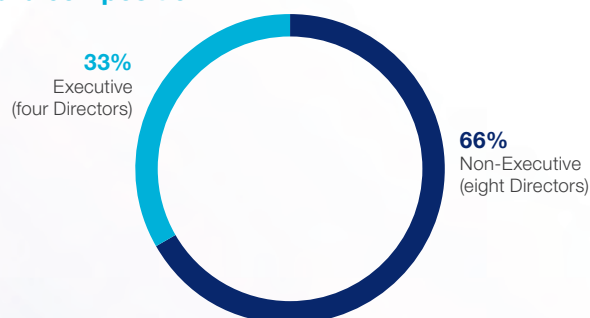
The Board has agreed that each Director shall stand for reappointment at each Annual General Meeting (AGM). Copies of the Executive Directors' service contracts and letters of appointment for the Non-Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

Director independence and conflicts

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

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

Board composition



Tenure



Directors' and Corporate Governance Report (continued)

Directors' induction

All new Directors appointed to the Board receive a comprehensive induction programme. These include briefings from members of the Executive and management teams covering key areas of the business, an overview of the Group's risk management processes, the internal audit function and the corporate governance framework within Centrica. The induction programme also includes a series of site visits for new Directors to familiarise themselves with the Group's businesses.

Training and support for Directors

Ongoing training is provided for all Directors, including formal and informal briefings, meetings with management and visits to the Group's operations. As part of this approach, two formal Board insight and training sessions are held each year. In 2017, these sessions covered 'Our Code' (the replacement for Centrica's former Business Principles and other codes of conduct that existed across the business) in July and, in November, a briefing from Deloitte on changes to Accounting Standards and on Internal Controls and Risk Management. In addition, the Directors have full access to the advice and services of the Group General Counsel & Company Secretary, who is responsible for advising the Board, through the Chairman, on corporate governance matters. They are also able to seek independent professional advice at the Company's expense in respect of their duties.

Key issues considered by the Board

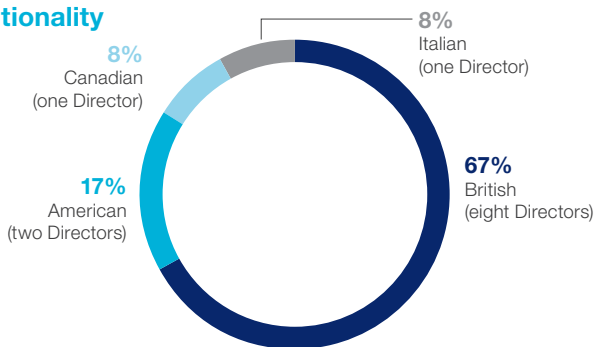
During the year, the Board considers a comprehensive programme of regular matters covering operational and financial performance reporting, strategic reviews and updates and various governance reports and approvals. In addition, each Board meeting features deep dives into a specific operation or topic. In 2017, these discussions included:

- Strategic reviews for Centrica Consumer and Centrica Business divisions;
- the adoption of Centrica's new Values;
- Process Safety;
- Group Brand architecture and reputation;
- IT, Technology and Innovation;
- the Competitive Landscape;
- Exploration & Production portfolio and pipeline; and
- People and Capability.

Board diversity

Centrica recognises the benefits of diversity in all its forms, at Board level and throughout the Group. During 2017, 25% of the Board were women and comprised Directors from the UK, US, Canada and Italy with a wide range of backgrounds and expertise. Centrica supports the recommendations of the Hampton-Alexander Review and is continuing to develop the skills, experience and knowledge of a diverse pipeline of talent. Our Nominations Committee is committed to ensuring and promoting a diverse blend of skills, backgrounds and nationalities on the Board.

Nationality



Gender



Employee and senior management diversity

Centrica's policies and practices reflect and encourage a culture where decisions are based on individual ability and potential in relation to the needs of the business. We promote equal opportunities and diversity to create an inclusive working environment that attracts and retains the best people and enables everyone in Centrica to fulfil their potential. In 2017, we started to roll-out unconscious bias training as part of a wider effort to remove barriers to employment and ensure all individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, promotion and performance management. We are committed to creating an inclusive workplace in which all employees are able to thrive. By delivering on this we are able to:

- attract and retain a diverse range of talent;
- enhance our employer brand;
- create an inclusive environment so that everyone feels safe to bring their whole self to work; and
- ensure people receive career opportunities based on merit so that we have the best talent in the right jobs.

At the senior management level 28%[†] of our people are female. For other employees that figure is 29%[†]. Centrica continues to offer a range of initiatives including coaching and mentoring of diverse talent. We also participate in the 30% Club's cross-company, cross-sector mentoring scheme for mid-career women. We are excited to be developing a programme aimed at enabling women to return to the workplace who have been out of work for two years or longer, which will be launched in 2018.

This year we launched a new Disability and Wellbeing Network (DAWN). Alongside our existing networks in the UK (Women, Carers, LGBT) and in the US (Women, LGBT, BOLD (Black Organisation Leadership Development) and HONOR (for Veterans)), this will continue to grow and support our employees. As a mark of Centrica's commitment to diversity and inclusion, we achieved Bronze recognition in the annual Business in the Community benchmarking survey. The Managing Director of Distributed Energy & Power, Jorge Pikunic, was also named among the Top 100 Executives in the Financial Times' 2017 OUTstanding Leading LGBT+ & Ally Executives and LGBT+ Future Leaders lists. This year, for the first time in our history, we celebrated National Inclusion Week bringing together all our diversity groups and acknowledging the benefits of inclusion.

In 2017, we worked toward achieving Disability Confident level 1 status and we are pleased that this has been accredited for 2018.

In addition, we are delighted to be recognised in the 2017 Stonewall Workplace Equality Index, where we were ranked in the 66th percentile.

We support the UK Government's gender pay gap reporting requirement. In the UK our gender pay gap is 12% mean and 30% median⁽¹⁾. The gap is not driven by unequal pay but by the uneven distribution of men and women across the business and the type of roles they do. Like other employers in our sector, we have a greater proportion of men in higher paid, traditionally male-dominated technical roles such as engineering, which form a significant portion of our workforce. By contrast, we have a larger number of women in lower paid, less technical roles such as administration. We are focused on closing the gap by building a gender balanced talent pipeline through initiatives to attract, develop and retain women.

(1) Data based on a 5 April 2017 snapshot of UK employees.

 [View our Gender Pay Statement](http://centrica.com/genderpay)
centrica.com/genderpay

Breakdown by gender

Senior management	72% [†]	28% [†]
2017	Male	Female
	719	278
2016	74% Male	26% Female
	788	284
Other employees	71% [†]	29% [†]
2017	Male	Female
	22,349	9,246
2016	71% Male	29% Female
	24,782	10,009

Board evaluation

In accordance with the Code, Centrica conducts an annual evaluation of Board performance, which is facilitated by an independent third-party at least once every three years.

As reported last year, the results of the 2016 internal evaluation exercise were considered by the Board and Committees in February 2017 and the topics where Directors had indicated a need for further discussion (new growth markets and the competitive landscape) were incorporated into the 2017 Board programme.

The 2017 independent third-party evaluation is being conducted by Independent Audit. This exercise, which was ongoing at the date of this Annual Report, comprised online questionnaires, interviews with all Directors, a review of Board papers and observation of a Board meeting. The results of the evaluation will be reviewed by the Board at its meeting in March 2018 and any findings built into an action plan. The Senior Independent Director, Stephen Hester, conducted the evaluation of the Chairman's performance through a series of individual discussions with Directors and Senior Executives.




Site visits

While the bulk of the Board's work is necessarily conducted around the Boardroom table, Directors recognise the importance of visiting the 'coal face' and seeing the Group's operations first-hand. During 2017, the Board visited operations at the Barrow Gas Terminal in the UK and the Group's North America headquarters in Houston.

In February 2017, a decision was made to stop production at Barrow and take a Stand Down for Safety focused on maintenance, streamlining the management of change process and development of improved operating procedures. The Board visited in March 2017 to understand better how process safety risks are managed and to bring to life real examples of process safety in action within a high hazard operation. The visit, over two days, involved presentations from local management, discussions with employees and an in-depth tour of the facility.

In September 2017, the Board visited Centrica's North America headquarters in Houston, Texas. The visit comprised a scheduled Board meeting and discussions with the North American leadership team on strategy and performance but, most importantly, afforded an opportunity for Directors to meet with North American colleagues and understand how they were faring in the immediate aftermath of the hurricanes Harvey and Irma. Whilst the impact had been devastating and many of our employees affected, it was heartening to see the way in which our people, the city of Houston and the State of Texas had pulled together in adversity. Moreover, the wider Centrica family had come together, with offers of help and generous donations to the Centrica Employee Relief Fund from employees across the Group.

 [Read more about supporting our Texan colleagues and customers through Hurricane Harvey](#)
Page 22

Audit Committee

Audit Committee



MARGHERITA DELLA VALLE
Chairman of the Audit Committee

Audit Committee members' attendance for the year ended 31 December 2017

Margherita Della Valle (Chairman)	7/7
Stephen Hester	7/7
Lesley Knox	7/7
Steve Pusey	7/7

Role of the Committee

The role of the Committee is primarily to assist the Board in fulfilling its corporate governance obligations in relation to the Group's financial reporting, internal control and risk management systems, as well as providing oversight of the internal audit function and the external auditors.

Margherita Della Valle, as deputy group chief financial officer of Vodafone Group Plc, is considered by the Board to have recent and relevant financial experience as required by the Code. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

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

Responsibilities of the Audit Committee:

- to support the Board in fulfilling its responsibilities in relation to maintaining effective governance and oversight of the Company's financial reporting, internal controls and risk management;
- to provide advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy;
- monitoring and reviewing the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources;
- the appointment and, if required, the removal of the Head of Internal Audit, Risk & Control;

- managing the relationship with the Group's external auditors on behalf of the Board including the policy on the award of non-audit services;
- to conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board; and
- to consider and review legal and regulatory compliance issues, specifically in relation to financial reporting and controls, and together with the Safety, Health, Environment, Security and Ethics Committee (SHESEC), maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime.

Report of the Committee Chairman

This report aims to provide a summary of the workings and activities of the Committee during 2017, outlining how we discharged our duty to provide oversight of the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, the considerations we gave to matters of financial risk and control and the key accounting judgements reached.

The Committee has developed its agenda to enable, over the course of a year, active oversight of all key areas of responsibility and to facilitate deeper dives into topics of particular importance or pertinence. In 2017 this agenda included regular reports on Risk, Control and Assurance, Ethics and Compliance and Centrica Storage compliance with its undertakings, together with periodic items reviewed at fixed points annually (for example, interim and final financial results, internal and external audit plans, etc.). In addition, there were deep dives during the year covering, among other things, the Group Risk Universe, financial controls maturity, including benchmarking against other organisations and Deloitte first year observations, lessons learned from external examples of control failures in large corporations and Finance transformation initiatives and staff rotations. In its November meeting, the Committee discussed the emerging accounting issue in the North America Business unit and held a further meeting by teleconference shortly after to fully understand the scope of the issue, remedial actions taken and lessons learned. Following a thorough review of the issue a number of enhancements are being implemented to internal controls in the North America Business unit. The Committee also met twice with the SHESEC Committee to jointly consider the Group's System of Risk Management and Internal Control; in the first quarter to assess the system's effectiveness and in the fourth quarter to look prospectively at plans for 2018. More detail on the key issues considered by the Committee in 2017 are given below.

I believe that the Committee has performed effectively in 2017. Compliance with the Code, including the risk management and the viability statement requirements, is set out on pages 61 to 62.

Areas of focus and training

An annual schedule of training is designed to provide Directors with practical training and insight into specific areas of interest. In 2017, these sessions covered Our Code (the replacement for Centrica's former Business Principles and other codes of conduct that existed across the business) in July and, in November, a briefing from Deloitte on changes to Accounting Standards and on internal controls and risk management. In February 2018, the Committee also received training on the practical application of the certain re-measurements accounting and exceptional item policy.

Risk management and internal controls

Internal audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group's Internal Audit function, including its independence, strategic focus, activities, plans and resources. The appointment and removal of the Head of Internal Audit Risks and Controls is also a matter for the Committee.

The Committee approved the Group's annual Internal Audit plan which was primarily risk-based focusing on the assurance of core processes. As part of its consideration of the plan, the Committee reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan.

During the year, the Committee received regular reports summarising the findings from the Group's Internal Audit function's work and action plans to resolve any highlighted areas. The Committee monitored the progress of the most significant action plans to ensure these were completed satisfactorily.

Review of the system of risk management and internal controls

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with the Group's Business Principles and policies are assessed. Self-certification is completed both at the half year and full year. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, inform the annual assessment of the effectiveness of the System of Risk Management and Internal Control performed by the Audit Committee and the SHESEC Committee, on behalf of the Board, in 2017. Where necessary, improvements and enhancements to financial and commercial controls in the North America Business unit have been recommended and will be implemented in 2018.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, performance and independence of the external auditors as well as whether a formal tender process is required.

The Board considers it of prime importance that the external auditors remain independent and objective and as a safeguard against this being compromised, the Committee implemented and monitors a policy on the independence of external auditors. This policy details the process for the appointment of the external auditors, the tendering policy, the provision of non-audit services, the setting of audit fees and the rotation of audit partner and staff. There are no contractual or similar obligations restricting the Group's choice of external auditors.

Effectiveness and independence of the external auditors

To assess the effectiveness and independence of the external auditors, the Committee carried out an assessment of Deloitte. This included a review of the report issued by the audit quality review team regarding Deloitte and an internal questionnaire completed by Committee members and relevant members of management on their views of Deloitte's performance. The questionnaire covered a review of the audit partner and team, the audit scope and approach, audit plan execution, auditor independence and objectivity and robustness of the challenge of management. The feedback received was reviewed by management and reported to the Committee and the Board.

In addition, to ensure the independence of the external auditors and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 1 issued by the Accounting Practices Board and as a matter of best practice, Deloitte has confirmed its independence as auditors of the Company. Together with Deloitte's confirmation and report on its approach to audit quality and transparency, the Committee concluded that Deloitte demonstrated appropriate qualifications and expertise and remained independent of the Group and that the audit process was effective.

Non-audit fees

In order to preserve the independence of the external auditor, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website. The current cap on non-audit work is £2.75 million, which is assessed annually for appropriateness against external guidance and regulation. The award of non-audit work, within permitted categories, is subject to pre-clearance by the Committee, should the fees in a given year exceed a specified threshold. All significant non-audit work is tendered and where Deloitte was appointed, it was considered that its skills and experience made it the most appropriate supplier of the work.

Deloitte had been engaged to perform certain activities for the Group prior to their appointment as auditors and before their appointment, the Group undertook a thorough review of all pre-existing arrangements. As a result of this, certain arrangements were terminated during 2016 and whilst others were permissible under all relevant regulatory requirements, the decision was taken to wind them down during the first half of 2017. The majority of non-audit fees included as 'All other services' noted in Note S9 to the Financial Statements relate to such transitional arrangements, which have now ceased.

Appointment of the external auditors

In 2016, the Committee led a formal audit tender process, PricewaterhouseCoopers LLP having been the external auditor of the Group since the demerger of Centrica in 1997. The conclusion of the tender process was a firm recommendation to appoint Deloitte as the Company's auditor for the financial year commencing 1 January 2017 and this appointment was approved by shareholders at the Annual General Meeting in May 2017.

Audit information

Each of the Directors who held office at the date of approval of the Annual Report and Accounts confirms that, so far as they are aware, there is no relevant audit information of which Deloitte is unaware and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that Deloitte is aware of that information.

Audit Committee (continued)

Key judgements and financial reporting matters in 2017

Impairment of goodwill, upstream gas and oil assets, power generation assets and storage facility assets

The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. These judgements include primarily the achievement of Board-approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates) and macroeconomic assumptions such as the growth and discount rates and long-term commodity and capacity market auction prices used in the valuation process. In the forecasts, where forward market prices are not available, prices are determined based on internal model inputs.

Classification and presentation of exceptional items and certain re-measurements

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

The classification of items as exceptional and specific trades as certain re-measurements (or conversely own use or proprietary trades) are subject to defined Group policies. These policies are reviewed annually by management.

Energy supply revenue recognition

The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end meter reading. 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. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised.

Audit Committee reviews and conclusions

The Committee reviewed management reports detailing the carrying and recoverable value of the assets and the key judgements and estimates used. At the year end it concluded pre-tax net impairments of Exploration & Production (E&P) assets of £408 million relating to the UK, Dutch and Norwegian assets were required, primarily due to a general reduction in price forecasts and changes to expected decommissioning costs. The Committee reviewed at the half year the recoverable value of the UK gas storage assets, following the decision to apply for a production licence for the Rough storage facility, and agreed a pre-tax impairment of £270 million. The Committee has reviewed the updated assumptions of the recoverable value of the UK gas storage assets at the end of the year and have concluded no adjustment to this impairment is required. The Committee reviewed the recoverable amount of all other significant balance sheet assets and concluded they had recoverable values in excess of the carrying value and were not impaired. The external auditors held discussions with the Committee on the key judgements and assumptions used in the impairment tests and provided their own analytical report. Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and S2 on pages 129 to 131 and 163 to 165.

In the prior year the Committee approved management's policy for the classification of items as certain re-measurements or exceptional items. During the year the Committee reviewed the items classified as exceptional items, considering their size, nature and incidence. They concluded that separate disclosure of these items was appropriate in the Financial Statements. Exceptional items include the impairments of the Rough storage facility and the UK, Dutch and Norwegian E&P assets. They also include the gains and losses from the disposal of the Canadian E&P business and the UK CCGT fleet, and restructuring costs related to the strategic review announced in 2015 and costs associated with changing business structure in Storage, the E&P Spirit Energy formation transaction and the closure of US Solar. Further detail is provided in note 7 on pages 129 to 131.

The Committee has reviewed and held discussions with the external auditors on the level of revenue accrual and provisions made during the year. In particular, the Committee has reviewed the reassessment of the historic recognition of unbilled power revenues, identified in late 2017 in North America Business, which resulted in a one-off non-cash income statement charge of £46 million. The Committee reviewed both the cause and control issues that led to the reassessment and agreed additional measures with management to assess key judgements and processes as part of the year-end procedures, supported by independent experts. Further improvements to relevant processes and controls have been incorporated into future business planning. More details of accrued energy income and provision for credit loss is provided in note 17 on pages 144 to 145.

Determination of long-term commodity prices and their use valuing commodity trades and other long-life assets

Long-term commodity price forecasts are derived using valuation techniques based on available external data. A significant number of judgements and assumptions are used in deriving future commodity curves. These forecasts are benchmarked against other third-party forecasts and, where appropriate, are adjusted to ensure they lie within the range of a reasonable market participant. The long-term commodity price forecasts are then used in determining the fair values of derivative financial instruments in North America and Europe. They are also a key input in the Group's impairment valuation testing and Business Combination opening balance sheet valuations.

The Committee reviewed the proposed commodity curves versus those of external third parties. The external auditors also provided detailed reporting and held discussions with the Committee on the potential impact of changes to the commodity curves. More detail on the assumptions used in determining fair valuations is provided in note S6 on pages 176 to 178. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on page 130 to 131.

Business combinations

During the year, the Group acquired Bayerngas Norge to create a new combined E&P business with a non-controlling interest held by Stadtwerke München. The REstore NV business was also acquired to join the Distributed Energy & Power (DE&P) segment. Business combinations require a fair value exercise to be undertaken to allocate purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill. As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. For the Bayerngas acquisition, judgement was required to conclude on the appropriate accounting treatment for the transaction and to assess the value of both the deemed purchase price and the asset valuations.

The Committee reviewed the valuations, and the key judgements and estimates (see note 3(a)). The Committee also approved the disclosures in note 12. The external auditors also provided detailed reporting and held discussions with the Committee on the key judgements and assumptions used. Further details on business combinations are set out in note 12 on pages 136 to 137.

Pensions

The cost, assets and liabilities associated with providing benefits under defined benefit schemes is determined separately for each of the Group's schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group's expected liabilities.

The Committee reviewed and approved the key assumptions and disclosures in the Financial Statements. Independent actuaries are consulted on the appropriateness of the assumptions and discussions are held with the external auditors. Further details on pensions are set out in note 22 on pages 148 to 152.

Going concern and liquidity risk

The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash. To mitigate this risk the Group holds cash on deposit and maintains significant committed facilities. The Group regularly prepares an assessment detailing these available resources to support the going concern assumption in preparing the Financial Statements.

The Committee reviewed management's funding forecasts and sensitivity analysis and the impact of various possible adverse events including significant commodity price movements and credit rating downgrades. The external auditors also provided detailed reporting and held discussions with the Committee. Following the review, the Committee recommended to the Board the adoption of the going concern statement in the Annual Report and Accounts 2017. Further details on sources of finance are set out in note 24 on pages 154 to 156 and in the Going Concern section in Other Statutory Information on page 100.

Ofgem Consolidated Segmental Statement

The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement (CSS)) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported International Financial Reporting Standards Annual Report and Accounts. The Group publishes the CSS at the same time as the full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.

The Committee reviewed the Ofgem Consolidated Segmental Statement and the key judgements and disclosures made in its preparation. The external auditor also provided a detailed report and held discussions with the Committee. The full CSS and the independent audit opinion approved by the Committee for publication are set out on pages 203 to 214.

Safety, Health, Environment, Security and Ethics Committee

Safety, Health, Environment, Security and Ethics Committee (SHESEC)



STEVE PUSEY
Committee
Chairman

SHESEC members' attendance for the year ended 31 December 2017

Steve Pusey (Chairman)	6/6
Margherita Della Valle ⁽¹⁾	5/6
Joan Gillman	6/6
Carlos Pascual ⁽²⁾	5/6
Scott Wheway ⁽³⁾	5/6

(1) Margherita Della Valle was unable to attend one SHESEC meeting due to an unavoidable diary clash.

(2) Carlos Pascual was unable to attend one SHESEC meeting due to the earthquake in Mexico.

(3) Scott Wheway was unable to attend one SHESEC meeting due to an unavoidable diary clash.

Role of the Committee

The Committee is responsible for the oversight and adequacy of the Group's internal controls and risk management systems in respect of the following areas:

- Health, Safety, Environment and Security;
- People: engagement, culture and behaviours;
- Sourcing and supplier management;
- Information Systems Security; and
- Legal, Regulatory, Ethical Standards and Compliance matters.

During the year, the Chairman of the Board and the Group Chief Executive attended all Committee meetings, as did other key executives.

Report of the Committee Chairman

Now in its second full year of operation, the Committee has developed its agenda to enable, over the course of a year, active oversight of all key areas of responsibility and to facilitate deeper dives into topics of particular importance or pertinence.

For example, every Committee meeting includes reports and reviews of Health, Safety, Environment and Security; Ethics and Compliance; and Risk, Control and Assurance. In addition, in 2017, there were deep dives covering, among other things, the preparation and publication of Centrica's first Modern Slavery Act Statement and a detailed review of asset integrity governance and practices.

The Committee continued to prioritise safety, and in particular process safety, as a key focus area. In March 2017, Directors visited the Barrow Gas terminal to see first-hand how process safety risks are being managed. More details on the visit to Barrow can be found on page 71. Whilst improving safety performance remains an ongoing priority, it was pleasing to note the considerable improvements in process safety performance over the year with zero[†] process safety events (Tier 1) in 2017 (2016: 2) while process safety incident frequency rate (Tier 1 and 2) reduced to 0.14[†] per 200,000 hours worked (2016: 0.33).

In July 2017, the Committee held a special briefing session on Our Code and subsequently approved its implementation. Our Code is the replacement for Centrica's former Business Principles and other codes of conduct that existed across the business. It will provide a single Group-wide reference point, both internally and externally, for all stakeholders about how we expect our people to protect the Company and themselves when working at Centrica.

The Committee met twice with the Audit Committee to jointly consider the Group's system of internal control and risk management; in the first quarter to assess the system's effectiveness and in the fourth quarter to look prospectively at plans for 2018. The joint Committee also reviewed Information Systems & Cyber-Security, covering the evolving cyber-threat landscape and how this risk is being managed within Centrica.

Nominations Committee

Nominations Committee



RICK HAYTHORNTHWAITE
Committee
Chairman

Nominations Committee members' attendance for the year ended 31 December 2017

Rick Haythornthwaite (Chairman)	3/3
Margherita Della Valle	3/3
Joan Gillman	3/3
Stephen Hester	3/3
Lesley Knox	3/3
Carlos Pascual	3/3
Steve Pusey	3/3
Scott Wheway	3/3

Role of the Committee

The Committee ensures there is a formal and appropriate procedure for the appointment of new Directors to the Board. The Committee is responsible for leading this process and making recommendations to the Board.

The Committee is chaired by the Chairman of the Board. During the year, the Group Chief Executive attended all Committee meetings, as did other key executives.

Report of the Committee Chairman

Although no new Directors were appointed to the Board in 2017, Lesley Knox indicated in February that she would step down as a Director at the end of the year. The Committee recommended, and the Board approved, the appointment of Scott Wheway to replace Lesley as Remuneration Committee Chair from May 2017. The Committee also discussed and approved the scope and role profile for the search for a suitable candidate to replace Lesley as a Non-Executive Director. The Committee utilised the Board skills matrix to inform the role profile and expressed a preference for a female candidate with a strong entrepreneurial and commercial background. It was felt the search criteria should be sufficiently wide so as to encourage a diverse range of candidates and, in this regard, the Committee agreed that previous listed board experience need not be a prerequisite. This search was progressing at the time of writing. The Committee also reviewed the strength of succession plans for Executive Directors and certain senior management roles, including internal talent development resources and processes.

Disclosure Committee

Disclosure Committee



IAIN CONN
Committee
Chairman

Disclosure Committee members' attendance for the year ended 31 December 2017

Iain Conn (Chairman)	13/13
Jeff Bell	13/13
Grant Dawson	13/13

Role of the Committee

The Disclosure Committee is responsible for the implementation and monitoring of systems and controls in respect of the management and disclosure of inside information and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with applicable legal or regulatory requirements. The Committee has scheduled meetings each year to approve the interim and preliminary results announcements and trading statements and meets as required to review and approve ad hoc announcements (for example, acquisitions and disposals, Board appointments). In 2017, the Committee met 13 times for these purposes.

The Committee is chaired by Iain Conn, the Group Chief Executive.

Responsibilities of the Disclosure Committee:

- Review the preliminary results announcement, the half-year results and the trading statements;
- Consideration of the release of regulatory and industry announcements;
- Review announcements regarding Board/key management changes; and
- Consideration of announcements in respect of specific projects.

Remuneration Report

Remuneration Committee



SCOTT WHEWAY
Committee
Chairman

Remuneration Committee members' attendance for the year ended 31 December 2017

Scott Wheway (Chairman)	7/7
Lesley Knox	7/7
Margherita Della Valle	7/7
Carlos Pascual	7/7

Membership and attendance

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

The Chairman of the Board, the Group Chief Executive, the Group General Counsel & Company Secretary, the Group HR Director and the Deputy Group HR Director & Group Head of Reward are normally invited to attend each Committee meeting and provide advice and guidance, other than in respect of their own remuneration.

Responsibilities of the Remuneration Committee:

- determine total individual remuneration packages and terms and conditions of employment for the Executive Directors (Executives), the Executive Committee (CEC) and the Chairman of the Board;
- approve the design, metrics and targets for incentive schemes for the Executives and CEC members, review results and approve any payouts under these schemes;
- prepare and recommend to the Board for approval at least every three years the Remuneration Policy (Policy) for the Directors; and
- prepare and recommend to the Board for approval each year a report on the implementation of the Policy in the last financial year.

During 2017, the Committee also discussed developments, trends and stakeholder views on executive remuneration with the independent external Committee adviser, and reviewed the base salary increases and bonus awards for the senior management population across the Group. An annual evaluation of the Committee was conducted in December 2016 and the results were discussed during the early part of the year.

On behalf of the Board, I am pleased to present the Committee's report for 2017.

In summary

As highlighted elsewhere in this report, second half performance was weak even though Centrica has made significant progress on many fronts in 2017 whilst facing a number of difficult external pressures. In particular, the Committee noted that most Group objectives and milestones were achieved including completion of the material divestment programme, strengthening of the balance sheet through net debt reduction to £2.6 billion, cost efficiency targets were exceeded and significant progress was made on safety issues. Despite this, the Committee has a duty to consider these achievements against shareholder experience and give due weight to all of the outcomes in 2017, which have not always reflected the exceptional efforts of Centrica's workforce. In this context we have decided:

- to reduce Annual Incentive Plan (AIP) awards for the Executives to zero;
- to reduce the maximum potential Long Term Incentive Plan (LTIP) grant for the 2018/20 cycle from 300% to 250% in recognition of a lower starting share price; and
- to impose a pay freeze on all Executives' salaries, where no pay rise will be granted in 2018.

These were difficult decisions but reflect a determination by the Centrica Board to demonstrate alignment between Centrica and its stakeholders.

We are required to present a new Policy for approval at the 2018 Annual General Meeting (AGM) and have been consulting with our major shareholders on proposed changes. We do not believe that the existing Policy requires wholesale change in structure or overall quantum, however, we have taken the opportunity to further align our Policy with strategy and market best practice. We are proposing to add a total shareholder return (TSR) measure to the LTIP, reduce the non-financial elements of both the AIP and LTIP, further align the AIP financial measures with current business plans and increase shareholding requirements for the Executives to 300% of base salary.

Remuneration outcomes for the year

Centrica's performance in 2017 has been disappointing for shareholders and the Committee has taken measures to ensure that variable remuneration outcomes reflect alignment with the shareholder experience.

The Committee has assessed performance under the AIP for 2017 on a formulaic basis against the original targets set. On this basis the performance achieved was above the threshold level of financial performance for cash flow and strong performance by the management team was reflected in considerable progress made against the strategic objectives in many areas. This would have resulted in an AIP outcome for the Executives in the range between threshold and target.

However, in making its assessment of performance the Committee took into full consideration the overall shareholder experience over the period and, as a result, concluded that irrespective of the formulaic outcome it was not appropriate to make an AIP award to any of the Executives in relation to 2017. The Committee has therefore exercised its discretion to reduce the AIP outcome to zero.

The Committee also needed to assess the vesting outcome for long-term incentive awards that were made in early 2015. The LTIP awards were dependent on adjusted earnings per share (EPS), economic profit (EP), safety performance, employee engagement and customer service delivery as assessed by net promoter scores. Based on performance against these metrics over the three years the LTIP will vest at a level of 26% of the award. The value of the shares initially granted under the 2015 award has fallen and as such represents an outcome of approximately 47% of salary.

Mark Hanafin, the only Executive in employment during the operation of the Policy prior to that approved by shareholders in 2015, was entitled to and received a matching award in relation to the deferral of part of his 2014 annual bonus under the final year of operation of the Deferred and Matching Share Scheme (DMSS). The Committee reviewed the original EP target set in early 2015, which related to the portfolio of business units that Mark was responsible for at that time and, due to significant changes within his portfolio during the performance period and the volatility in commodity prices impacting the Exploration & Production (E&P) business unit, decided that the calculated result when compared to the target, which suggested that the maximum should vest, was no longer a fair measure of performance. Using its discretion and in accordance with the scheme rules, the Committee revised the target upwards and set it on a constant environment basis. The revised threshold and maximum levels were £80 million and £160 million respectively. The result was £129 million and consequently the Committee decided that 81% of the award should vest.

It has been previous practice to agree salary adjustments in April of each year and report them retrospectively in the Remuneration Report. From 2018 it is our intention to report them on a forward looking basis for the year. Accordingly this report details the decisions for both 2017 and 2018.

In 2017, increases in salary not exceeding 2% were awarded to the Executives in line with the wider workforce, save for Jeff Bell who also received a 2.55% progression-related increase. The Committee intentionally set Jeff's salary on appointment to the Board in August 2015 at a level that reflected his experience at that time and on the understanding that it would in future be reviewed. Having made the adjustment in April 2017, the Committee was then satisfied that Jeff's salary appropriately reflected his role and contribution and would not expect such an adjustment to be repeated in the future.

Remuneration in the upcoming year

In 2018, no Executive will receive a salary increase. The Committee has also considered the impact that the current share price could have on the number of shares to be granted under the 2018/20 LTIP cycle. As a result the Committee has decided to reduce the award level for 2018 to 250% of salary in recognition of the current level of Centrica's share price.

Fairness/equal pay

Enhancements to both practice and reporting capability throughout the year have enabled the Committee to review and disclose for the first time an assessment of pay against the relevant functional and geographic market median for all roles across the Group. The median, lower and upper quartile ratio is set out on page 96, along with the equivalent comparison to market median for the Group Chief Executive, and demonstrates a fair and consistent approach to the determination of pay. We have robust processes in place to uphold equal pay. This includes conducting an equal pay audit each year. When comparing pay across equivalent jobs, our gender pay gap is 1% at median with the difference attributed to factors relating to experience. We work hard to be a company where everyone can progress in their careers and achieve their full potential. We know, however, that there is more we can and must do. Further information on pay fairness will be disclosed in March within the Gender Pay Statement.

Remuneration Policy review

As Centrica's Policy was last approved by shareholders in 2015 it will be the subject of a shareholder vote at the AGM in May 2018. During the year the Committee undertook a full review of our existing arrangements. We concluded from this that while our current remuneration structure generally worked well and was largely fit for purpose, there was an opportunity to improve the alignment

of executive remuneration with both our strategic goals and the experience and expectations of shareholders. We are committed to ensuring that our revised Policy more closely aligns to our strategy and the delivery of long-term shareholder value through returns and growth whilst also taking into account evolving stakeholder views on executive pay.

Under the AIP, we propose to increase the weighting towards financial performance and move to 75% financial measures and 25% personal objectives (for 2017, the measures were 62.5% cash flow and 37.5% personal objectives). The financial measures will in future be a mix based on Centrica's priorities for the forthcoming year. For 2018 the measures will be adjusted operating cash flow, operating profit and cost efficiency.

For the LTIP, going forward from the 2018/20 cycle, the performance measures will consist of relative TSR with the most significant weighting (33.3%) and cash flow growth (22.2%), EP (22.2%), and non-financial KPIs (22.2%). The Committee believes that this combination creates the right balance between doing the right thing for the business, whilst aligning Executives to the shareholder experience.

For the Group's non-financial KPIs, we are proposing to change from using annual targets aggregated across the LTIP performance period, to three-year targets for improvement. The LTIP targets for awards due to be made in 2018 are set out on page 89.

We continue to be committed to full transparency and disclosure, and in future will disclose all other targets as soon as any commercial sensitivity falls away, and at the latest at the end of the performance period.

We are also proposing the following changes to the Policy to reflect evolving market practice:

- an increase in the shareholding requirement for Executives from 200% to 300% of base salary, with a condition to retain 75% of vested incentive shares (post-tax) until the requirement has been met;
- the introduction of a post-cessation shareholding requirement of 50% of the shareholding requirement (or full actual holding if lower) applicable for 24 months post-cessation;
- the simplification of our bonus deferral to three-year cliff vesting (rather than phased vesting); and
- a reduction in the maximum pension salary supplement available to newly recruited Executives to 25% of salary (currently 30% of salary for the Group Chief Executive and 25% of salary for other Executives).

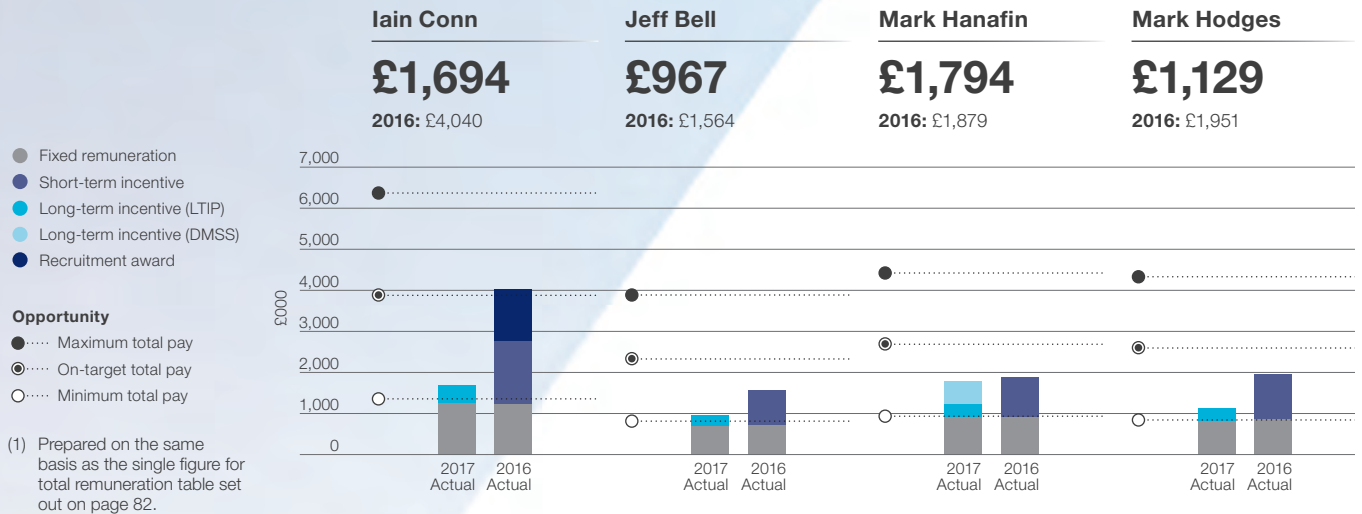
We have come to these decisions on our Policy following extensive consultation with our largest shareholders. I would like to thank them for their time and constructive input to our deliberations. Our inclusion of TSR within the long-term metrics reflects the feedback we received from the majority of our shareholders on the importance they placed on the inclusion of output measures within the LTIP.

Conclusion

Overall, 2017 has been a challenging year for Centrica as a business and our shareholders. The Committee remains dedicated to ensuring that remuneration arrangements recognise the strong performance of the business whilst remaining appropriate in the context of shareholder experience. The Committee believes that the decisions made over the year in designing the new Policy, exercising discretion in relation to the AIP, and the discretion relating to the final DMSS vesting and 2018 LTIP grant, allow us to achieve this aim and align pay and performance effectively. The Committee is dedicated to an open and transparent dialogue with our investors and therefore I welcome views on any part of our remuneration arrangements.

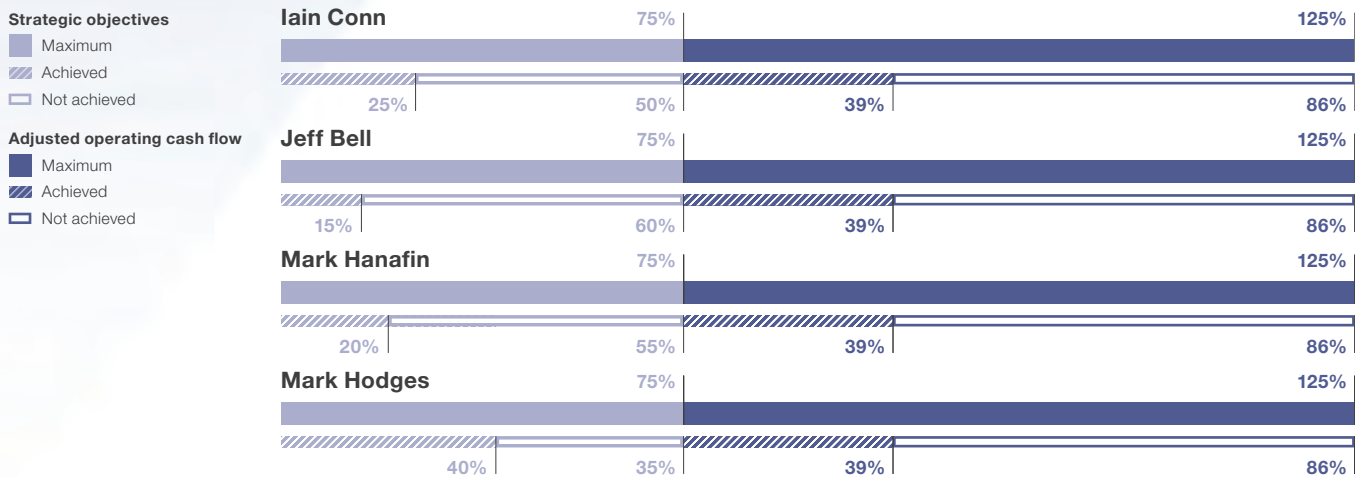
Remuneration Summary for 2017

Total remuneration received in 2017 (£000)⁽¹⁾

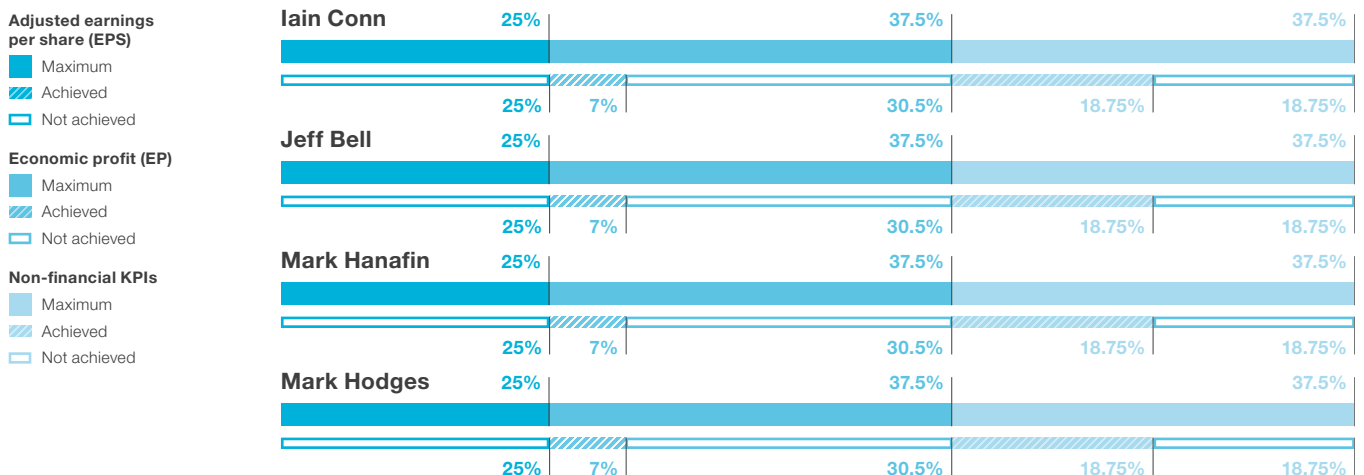


Notwithstanding the formulaic result in the short-term incentive outcome chart below, the Committee exercised its discretion and reduced all Executive bonuses to zero.

Short-term incentive outcome (Annual Incentive Plan)

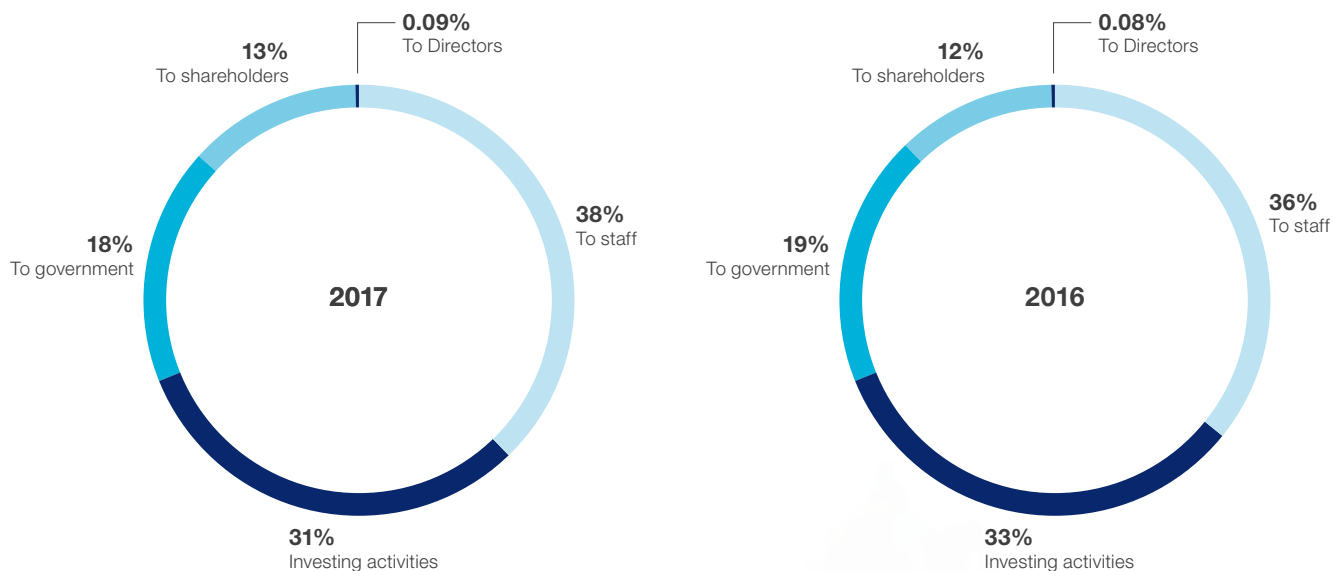


Long-term incentive outcome (Long Term Incentive Plan)



2017 cash flow distribution to stakeholders

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart below, the Directors' aggregate total remuneration for the year equates to 0.09% (2016: 0.08%) of the Group's operating cash flow.



Summary of Policy changes

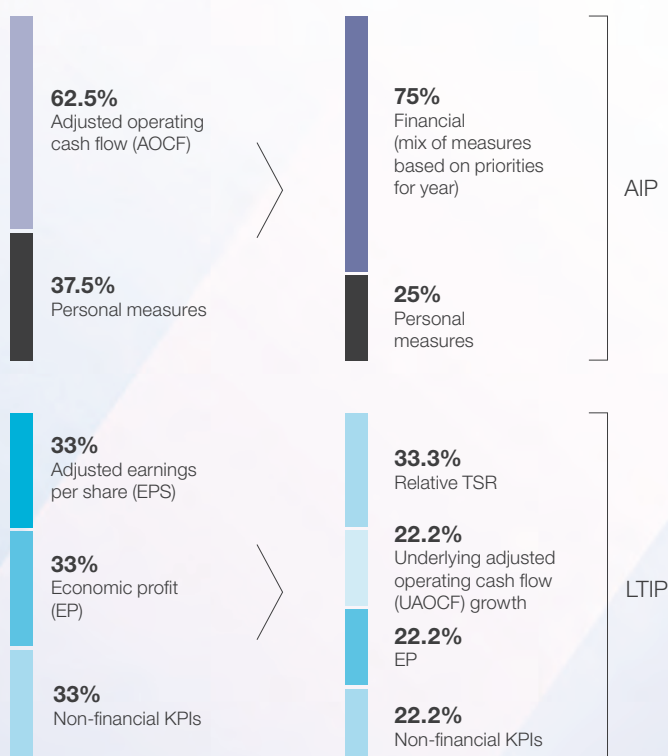
Centrica's Remuneration Policy (the Policy) will be the subject of a shareholder vote at the AGM in May 2018. Set out below is a summary of the proposed Policy changes. The full Policy is set out on pages 90 to 97.

- No material changes to remuneration structure or incentive quantum;
- increase in the weighting of financial performance in the Annual Incentive Plan (AIP) (to 75% financial, 25% personal objectives);
- inclusion of total shareholder return (TSR) as a financial performance measure in the Long Term Incentive Plan (LTIP);
- increase in the shareholding requirement for Executives from 200% to 300% of salary;
- introduction of a post-cessation shareholding of 50% of requirement for 24 months; and
- reduction in the maximum pension salary supplement for newly recruited Executives to 25% of salary.

Incentive measures

Current

Proposed



Directors' Annual Remuneration Report

Directors' remuneration in 2017

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2017.

Single figure for total remuneration (audited)

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
£000	Salary/fees	Salary/fees	Bonus (cash)	Bonus (cash)	Bonus (deferred)	Bonus (deferred)	Benefits ⁽¹⁾	Benefits ⁽¹⁾	LTIPs ⁽²⁾⁽³⁾	LTIPs	Recruitment award	Recruitment award (restated) ⁽⁴⁾	Pension ⁽⁵⁾⁽⁶⁾	Pension	Total	Total (restated) ⁽⁴⁾
Executives																
Iain Conn	936	925	-	759	-	759	30	29	447	-	-	1,291	281	277	1,694	4,040
Jeff Bell	569	550	-	424	-	424	27	26	266	-	-	-	105	140	967	1,564
Mark Hanafin ⁽³⁾	634	625	-	481	-	481	25	25	873	-	-	-	262	267	1,794	1,879
Mark Hodges	634	625	-	544	-	544	34	82	302	-	-	-	159	156	1,129	1,951
Total															5,584	9,434

- (1) Taxable benefits include car allowance, health and medical benefits and financial planning advice. Non-taxable benefits include matching shares received under the Share Incentive Plan (SIP). Benefits paid to Mark Hodges in 2016 include relocation support paid in line with Centrica's relocation policy.
- (2) LTIPs include the estimated value of the LTIP awards granted in 2015 and due to vest in May 2018 (August 2018 in respect of Jeff Bell), relating to the three-year performance period ending in 2017. Details of the performance outcomes are set out on pages 85 to 86. The estimated value of dividend equivalent shares has been included and the share price used to value the awards is 159.17 pence (the average share price from 1 October to 31 December 2017).
- (3) For Mark Hanafin, as set out below, LTIPs also include the estimated value of the final DMSS matching award granted in 2015 (under the previously approved policy) and due to vest in April 2018. As detailed on page 79, 81% of the DMSS matching award will vest. The estimated value of dividend equivalents has been included and the share price used to value the award is 159.17 pence (the average share price from 1 October to 31 December 2017).

£000	2017 LTIP	2017 DMSS	2017 Total LTIPs
Mark Hanafin – breakdown of LTIPs	302	571	873

- (4) The value of the recruitment award shares vesting in April 2017 has been recalculated based on the share price on the date of vest which was 215.5 pence. The previous disclosure in the 2016 single figure table used an estimated share price. Iain Conn's total remuneration for 2016 has therefore been restated to include the amended value of this award.
- (5) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Jeff Bell and Mark Hanafin have been included in this table as if CUPS DC was a cash balance scheme. This includes a deduction in respect of an allowance for CPI inflation on the opening balances of 0.9% in 2017 (no allowance was applicable in 2016).
- (6) Iain Conn and Mark Hodges are entitled to receive a salary supplement of 30% and 25% of base salary respectively.

Single figure for total remuneration (audited)

	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
£000	Salary/fees	Salary/fees	Bonus (cash)	Bonus (cash)	Bonus (deferred)	Bonus (deferred)	Benefits	Benefits	LTIPs	LTIPs	Recruitment award	Recruitment award	Pension	Pension	Total	Total
Non-Executives																
Rick Haythornthwaite	495	495	-	-	-	-	-	-	-	-	-	-	-	-	495	495
Margherita Della Valle	98	98	-	-	-	-	-	-	-	-	-	-	-	-	98	98
Joan Gillman	73	16	-	-	-	-	-	-	-	-	-	-	-	-	73	16
Stephen Hester	93	47	-	-	-	-	-	-	-	-	-	-	-	-	93	47
Lesley Knox	80	93	-	-	-	-	-	-	-	-	-	-	-	-	80	93
Mike Linn ⁽¹⁾	-	28	-	-	-	-	-	-	-	-	-	-	-	-	-	28
Ian Meakins ⁽²⁾	-	70	-	-	-	-	-	-	-	-	-	-	-	-	-	70
Carlos Pascual	73	73	-	-	-	-	-	-	-	-	-	-	-	-	73	73
Steve Pusey	93	87	-	-	-	-	-	-	-	-	-	-	-	-	93	87
Scott Wheway	85	48	-	-	-	-	-	-	-	-	-	-	-	-	85	48
Total															1,090	1,055

- (1) Mike Linn resigned as a Non-Executive Director on 18 April 2016.
- (2) Ian Meakins resigned as a Non-Executive Director on 1 October 2016.

Base salary/fees

Base salaries for Executives were reviewed during the year and were increased with effect from 1 April 2017, as follows:

	Previous Salary	Increase %	New Salary
Iain Conn	£925,000	1.62%	£940,000
Jeff Bell	£550,000	4.55%	£575,000
Mark Hanafin	£625,000	2.00%	£637,500
Mark Hodges	£625,000	2.00%	£637,500

Jeff Bell received an additional increase to appropriately reflect his role and contribution, recognising that his salary had been set at a lower level on promotion to the Board in 2015. The other increases for the Executives in aggregate were lower than the average increase across the rest of the organisation.

Base fees for Non-Executives, as well as the additional fee for the Chairman of the Audit Committee, were increased on 1 January 2016. There were no increases to Non-Executive fees during 2017.

Bonus – Annual Incentive Plan (AIP)

The charts on page 80 under short-term incentive outcome indicate the extent of achievement against individual strategic objectives for each Executive and against the adjusted operating cash flow (AOCF) target. In accordance with the Policy, the maximum AIP is 200% of base salary. Half of the maximum is payable for on-target performance. Up to 75% of base salary is based on the achievement against individual strategic objectives aligned to the Group's strategic priorities, with the remainder based on AOCF.

AOCF of £2,231 million was required for target achievement and £2,343 million was required for maximum. The threshold level was £2,008 million. Although the formulaic result of £2,069 million was above the threshold level and considerable progress had been made against strategic objectives in many areas, the Committee concluded that irrespective of the formulaic outcome, it was not appropriate to make an AIP award to any Executive in relation to 2017.

AOCF is the net cash flow from operating activities (which includes taxes paid) adjusted to include dividends received from joint ventures and associates, and to exclude payments relating to exceptional items, UK defined benefit pension deficit contributions and movements in variation margin and cash collateral that are included in net debt.

Performance against individual strategic objectives in 2017

In line with the Group's annual performance management process, each Executive had an agreed set of stretching individual objectives for 2017. Set out below is the Committee's assessment of the achievement against these objectives for each Executive.

Iain Conn

Iain Conn's performance against the strategic objectives of the Group has resulted in strong delivery of the first phase of the strategy, including the successful portfolio repositioning and Mergers & Acquisitions (M&A) programme, cash discipline, balance sheet improvement, credit rating protection and the delivery of the 2020 efficiency target three years early. Occupational safety rates have remained consistent across the year whilst significant improvements have been achieved in process safety, driving safety and customer safety. Regulatory relationships continued to be well managed.

There has been significant development of customer propositions and the capabilities and strategic frameworks of both Consumer and Business divisions. Customer service levels have, in general, also continued to improve.

Outcomes elsewhere have, however, been weaker than planned. The pace of growth of the Connected Home and Distributed Energy & Power (DE&P) businesses has been considerable but did not meet all expectations and whilst performance across the Group's financial targets, which were focused on cash flow, balance sheet strength and efficiency have been met, Group earnings were significantly impacted by issues in North America Business and UK Business in the second half of the year.

The timing and scale of the North America Business performance and accounting issues combined with the uncertainty created by political and regulatory intervention into the UK energy market have overshadowed the significant strategic progress and operational delivery throughout the rest of the Group over the year. The net result has been a severe drop in the market worth of the Company, a situation for which a CEO will always be held to account.

Jeff Bell

Jeff Bell's achievements against his strategic objectives for the year include significant progress on the finance transformation programme and delivery of cost efficiency, improvement in performance monitoring and strong management of the rating agency relationships. A key deliverable was oversight of strong M&A portfolio programme delivery with the successful divestments of Lincs Wind Farm, Canada E&P, the combined cycle gas turbines (CCGTs), the establishment of Spirit Energy and the acquisition of REstore. As a result the Group balance sheet was strengthened materially during the year with Group net debt reduced to within the targeted year-end range.

There have been challenges for Jeff during the year, particularly in North America Business associated with planning and performance forecasting, and the discovery of the revenue recognition issue. However, Jeff has significantly contributed to the general improvement of the strategic planning, performance management and monitoring processes of the Group, including a tighter quarterly review process and monitoring of the Group efficiency programme. The approach to the Enterprise Risk Framework and risk management has been further improved and standardised.

Jeff continued to focus significant attention on Investor Relations, but clearly the Trading Update in November combined with uncertainty associated with the UK energy market have undermined investor confidence.

Overall, 2017 has been a challenging year for Jeff with significant efforts on inputs and strong delivery on functional priorities, against an unsatisfactory financial performance for the Group overall which resulted in a negative investor/share price reaction in the fourth quarter.

Directors' Annual Remuneration Report (continued)

Mark Hanafin

Mark Hanafin achieved a significant amount in 2017, including delivering very strong results relative to plan in Energy Marketing & Trading (EM&T), establishing and growing DE&P and significantly delivering all major outcomes in M&A.

Safety and regulatory performance have improved in Centrica Business and a new approach to risk and market conduct has been established within EM&T. Mark effectively led the thinking on the five pillar strategic framework for the Business division and he has successfully motivated and developed his leadership teams.

Under Mark's leadership, EM&T and DE&P are developing in line with strategy, improving capability, integrating recent acquisitions and growing customer relationships. DE&P has integrated recent acquisitions to establish new customer propositions and a new branded marketing platform, and order book growth has been encouraging. The LNG business has developed significantly throughout the year, successfully mitigating portfolio risk and establishing important new relationships with a range of counterparts. Mark continued to oversee Centrica's Nuclear shareholding and became Chairman of Spirit Energy in December.

However, North America and UK Business, which moved into Mark's portfolio in early 2017, were materially behind plan and although there were significant competitive pressures and market developments, weaknesses in areas of forecasting and risk management were a material factor in North America and this was the largest contributor to Centrica's profit warning in November.

Overall, Mark has established the Business division successfully although financial performance across his portfolio during the year has been weak with particularly disappointing results in North America Business.

Mark Hodges

Mark Hodges performed strongly in 2017 with good overall delivery in Centrica Consumer against material pressures externally. Mark led a broad agenda and demonstrated strong leadership, establishing a capable and motivated divisional team, a robust platform and resilient plans for the future.

Safety performance improved materially in the areas of customer and road safety, although occupational safety deteriorated, most notably within the smart meter programme. The regulatory relationships with both Ofgem and the Financial Conduct Authority continued to improve. Mark shaped Centrica's response to the proposed intervention in the UK Energy Market, managing external relationships well, and developed our '14 point plan' for improving the market.

The Centrica Consumer division as a whole delivered solid financial results and cost efficiency programme targets and headcount reductions were exceeded. Operationally, the customer losses during the year were a major concern for the market, but we have been clear about targeting sustainable and profitable channels rather than simply volume in our customer base. Connected Home missed its hub target but beat the product target and achieved the first major partnership deal with Eni gas e luce in Italy.

Mark put significant effort into customer segmentation, proposition development, more dynamic pricing and customer journeys. Customer service improved for the third year in a row, UK Home Services also began to see growth in accounts and Local Heroes and British Gas Rewards were established.

Overall, although customer losses were beyond planned levels and results within Connected Home were mixed, given the breadth of Mark's responsibilities he achieved a strong set of inputs demonstrating considerable leadership, focus and determination.

Long-term incentive plans vesting in 2017

Performance conditions

The performance conditions relating to the LTIP awards vesting in 2017 are set out below, together with an explanation of the achievement against these performance conditions.

LTIP performance conditions

Vesting criteria	Performance conditions over three-year period
1/4 based on EPS growth over 2016 and 2017 (with 2015 as the base year)	Full vesting for EPS growth of 16% or more Zero vesting if EPS growth does not exceed 6% Vesting increases on a straight-line basis between these points
3/8 based on absolute aggregate EP over the 3-year performance period	Full vesting for aggregate EP of £3,500 million Zero vesting if aggregate EP is below £1,500 million Vesting increases on a straight-line basis between these points
3/8 based on non-financial KPI dashboard over the 3-year performance period	As disclosed below

Performance outcome

Adjusted earnings per share (EPS)

EPS is the Company's basic earnings per share adjusted for exceptional items and certain re-measurements net of taxation.

EPS growth during the two-year period ending with 2017 did not exceed RPI growth by 6%. Consequently, the EPS portion of the 2015 LTIP award will not vest.

Economic profit (EP)

EP is the adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital. Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Aggregate EP achieved during the three-year period ending with 2017 was £1,886 million when compared to a threshold level of £1,500 million and a maximum level of £3,500 million. Consequently, 19% of the EP portion of the 2015 LTIP award will vest.

LTIP non-financial KPI dashboard

Performance against five equally-weighted KPIs is measured each year. Achievement against each target determines the performance zone outcome. The KPI dashboard comprises results over a three-year period.

Throughout each three-year performance period, for each median performance zone outcome, 5% of the KPI portion of the award will be forfeited and for each low performance zone outcome, 10% of the KPI portion of the award will be forfeited.

- High performance zone
- Median performance zone
- Low performance zone

Non-financial KPI update for long-term incentive plans vesting in 2018, 2019 and 2020

KPI performance under the LTIP

Set out below is the achievement against the KPI dashboard for the LTIP awards granted in 2015, 2016 and 2017.

Measure	Performance period – LTIP awards granted in 2015 and due to vest in 2018			Performance period – LTIP awards granted in 2016 and due to vest in 2019		Performance period – LTIP awards granted in 2017 and due to vest in 2020
	Year 1	Year 2	Year 3†	Year 1	Year 2†	Year 1†
Lost time injury frequency rate (LTIFR) ⁽¹⁾	●	●	●	●	●	●
Significant process safety events (Tier 1) ⁽¹⁾	●	●	●	●	●	●
British Gas net promoter score (NPS) ⁽²⁾⁽³⁾	●	●	●	●	●	●
Direct Energy NPS ⁽²⁾⁽⁴⁾	●	●	●	●	●	●
Employee engagement ⁽⁵⁾	●	●	●	●	●	●

(1) View our performance in more detail on page 31.

(2) NPS and employee engagement measures disclosed on this page are part of the non-financial KPI dashboard used for the LTIP and are calculated using historical methodology and business areas which were set at the time that the current Remuneration Policy was approved. They differ from the new NPS and employee engagement metrics referenced elsewhere in the Annual Report and Accounts 2017.

(3) British Gas NPS decreased to -3† from -1.

(4) Direct Energy NPS declined slightly to +42† from +43.

(5) Employee engagement increased slightly from 56% favourable to 62%† favourable.

† We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement over 22 metrics, including the above metrics, which are highlighted with the symbol '†' throughout the Annual Report and Accounts 2017. Further details are set out on page 218 in Responsible Business – Performance Measures or online at centrica.com/assurance

Performance against the non-financial KPI dashboard during the three-year performance period resulted in 50% of the KPI portion of the 2015 LTIP award vesting.

Directors' Annual Remuneration Report (continued)

Based on achievement against the LTIP performance conditions over the three-year performance period, as set out on page 85, the LTIP granted in 2015 will vest at a level of 26% of the award. The value of the shares initially granted under the 2015 award has fallen and as such represents an outcome of approximately 47% of salary (the final value will be established on the vesting date).

Pension

Iain Conn and Mark Hodges elected to receive salary supplements of 30% and 25% of base salary respectively, in lieu of participating in a Centrica pension plan. These salary supplements are included in the single figure for total remuneration table on page 82.

Jeff Bell is entitled to receive a salary supplement of 25% of base salary or participate in the CUPS DC scheme. As Mark Hanafin was an Executive prior to 2014, he is entitled to receive a salary supplement of 40% of base salary or participate in the CUPS DC scheme. During the year, they both participated in the CUPS DC scheme and received an unfunded promise equal to 25% and 40% of base salary respectively.

Notional contributions to the CUPS DC scheme have been included in the single figure for total remuneration table as if it was a cash balance scheme and therefore notional investment returns for the year have been included. The notional pension fund balances are disclosed below.

Pension benefits earned by Directors in the CUPS DC scheme (audited)

	Total notional pension fund as at 31 December 2017 £	Total notional pension fund as at 31 December 2016 £
CUPS DC scheme⁽¹⁾		
Jeff Bell	304,327	197,101
Mark Hanafin	1,357,689	1,085,701

(1) The retirement age for the CUPS DC scheme is 62.

Directors' interests in shares (number of shares) (audited)

The table below shows the interests in the ordinary shares of the Company for the Directors on the Board at the end of the year together with the minimum shareholding guideline for the Executives, which is 200% of base salary, and the achievement against the guideline.

Executives have a period of five years from appointment to the Board, or any material change in the minimum shareholding requirement, to meet the guideline.

	Shares owned as at 31 December 2016 ⁽¹⁾	Shares owned as at 31 December 2017 ⁽¹⁾	Minimum shareholding guideline (% of salary)	Achievement as at 31 December 2017 (% of salary) ⁽²⁾	Shares owned (subject to continued service) as at 31 December 2017 ⁽³⁾
Executives					
Iain Conn ⁽⁵⁾	663,219	1,834,682	200	268	242
Jeff Bell ⁽⁶⁾	238,416	510,720	200	122	74,760
Mark Hanafin ⁽⁴⁾⁽⁷⁾	518,550	782,250	200	168	52,189
Mark Hodges ⁽⁸⁾	125,817	376,081	200	81	638
Non-Executives					
Rick Haythornthwaite	34,721	93,247	–	–	–
Margherita Della Valle	37,308	52,672	–	–	–
Joan Gillman	–	–	–	–	–
Stephen Hester	20,700	20,700	–	–	–
Lesley Knox	15,076	15,831	–	–	–
Carlos Pascual	–	–	–	–	–
Steve Pusey	35,151	52,701	–	–	–
Scott Whewey	10,187	10,187	–	–	–

(1) These shares are owned by the Director or a connected person and they are not, save for exceptional circumstances, subject to continued service or the achievement of performance conditions. They include for Executives shares purchased in April 2016 and 2017 with deferred AIP funds which have mandatory holding periods of three and four years and which will be subject to tax at the end of the holding periods. For Iain Conn, these shares include shares which vested in April 2017 relating to his recruitment award which have a mandatory holding period of one year and which will be subject to tax at the end of the holding period.

(2) The share price used to calculate the achievement against the guideline was 137.3 pence, the price on 31 December 2017.

(3) Shares owned subject to continued service include SIP matching shares that have not yet been held for the three year holding period. For Mark Hanafin, these shares include a DMSS deferred award and for Jeff Bell, shares that were awarded in 2015 under the On Track Incentive Plan (OTIP), before he was appointed to the Board. The DMSS and OTIP shares are due to be released in April 2018.

(4) Mark Hanafin also holds 215,261 fully vested unexercised options that are exercisable until April 2022.

(5) Following the release of shares in April and May 2018, after tax has been deducted, it is estimated that Iain Conn will hold shares with a value equal to 249% of salary.

(6) Following the release of shares in April and August 2018, after tax has been deducted, it is estimated that Jeff Bell will hold shares with a value equal to 154% of salary.

(7) Following the release of shares in April and May 2018, after tax has been deducted, it is estimated that Mark Hanafin will hold shares with a value equal to 184% of salary.

(8) Following the release of shares in May 2018, after tax has been deducted, it is estimated that Mark Hodges will hold shares with a value equal to 103% of salary.

Executives' interests in shares (number of shares) subject to Company performance conditions

The table below shows the share awards that have been granted in 2015 and 2016 to Executives under the LTIP and the DMSS. These awards are subject to the achievement of Company performance conditions. Under the LTIP, there is a mandatory two-year holding period following the vesting date, before the shares can be released.

	Plan	Number of shares	Vesting date	Release date
Iain Conn	LTIP	943,012	May 2018	May 2020
	LTIP	1,221,498	April 2019	April 2021
Jeff Bell	LTIP	546,398	August 2018	August 2020
	LTIP	726,296	April 2019	April 2021
Mark Hanafin	DMSS	362,878	April 2018	April 2018
	LTIP	637,170	May 2018	May 2020
	LTIP	825,336	April 2019	April 2021
Mark Hodges	LTIP	637,170	May 2018	May 2020
	LTIP	825,336	April 2019	April 2021

Share awards granted in 2017 (audited)

The table below shows the share awards that were granted to Executives under the LTIP in April 2017. These awards are subject to the achievement of Company performance conditions before vest and there is a mandatory two-year holding period following the vesting date before the shares can be released.

LTIP awards granted in 2017	Number of shares	Value £000 ⁽¹⁾⁽²⁾	Vesting date	Release date
Iain Conn	1,270,953	2,775	April 2020	April 2022
Jeff Bell	755,702	1,650	April 2020	April 2022
Mark Hanafin	858,752	1,875	April 2020	April 2022
Mark Hodges	858,752	1,875	April 2020	April 2022

(1) Awards were made in 2017 to Executives based on a value of 300% of salary. The performance conditions relating to these awards are set out below.

(2) The share price used to calculate the number of shares granted was 218.34 pence being the average closing share price over the five business days immediately preceding the grant date of 1 April 2017.

LTIP performance conditions

Vesting criteria	Performance conditions over three-year period
1/3 based on EPS growth over the 3-year period 2017/19	Full vesting for EPS growth of 24% or more Zero vesting if EPS growth does not exceed 9% Vesting increases on a straight-line basis between these points
1/3 based on absolute aggregate EP over the 3-year period 2017/19	Full vesting for aggregate EP of £3,500 million Zero vesting if aggregate EP is below £1,500 million Vesting increases on a straight-line basis between these points
1/3 based on non-financial KPI dashboard over the 3-year period 2017/19	Detailed on page 85

Directors' Annual Remuneration Report (continued)

Percentage change in Group Chief Executive's remuneration compared with other employees

The table below shows the percentage change in base salary, taxable benefits and bonus (annual incentive) payments between 2016 and 2017 for Iain Conn, compared with a comparator group of UK employees, over the same period of time.

Change in Group Chief Executive's remuneration	Change in employee remuneration
Salary and fees ↑ 1.62%	Salary and fees ↑ 2.20%
Taxable benefits ↑ 3.45%	Taxable benefits ↑ 0.19%
Annual incentive ↓ -100%	Annual incentive ↓ -33.87%

The comparator group includes management and technical or specialist employees based in the UK in Level 2 to Level 6 (where Level 1 is the Group Chief Executive). The employees selected have been employed in their role throughout 2016 and 2017 to give a meaningful comparison. The group has been chosen as the employees have a remuneration package with a similar structure to the Group Chief Executive, including base salary, benefits and annual bonus.

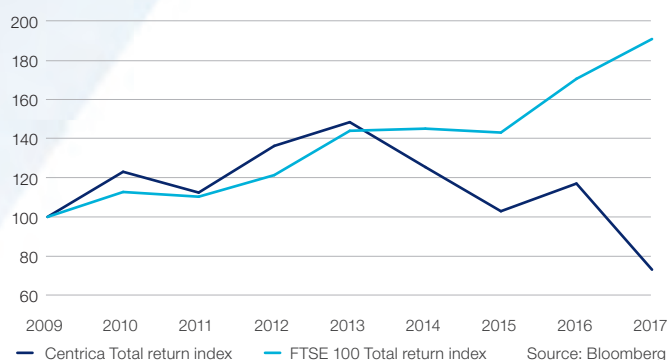
Pay for performance

The table below shows the Group Chief Executive's total remuneration over the last eight years and the achieved annual short-term and long-term incentive pay awards as a percentage of the plan maximum.

	Group Chief Executive single figure for total remuneration £000	Annual short-term incentive payout against max opportunity %	Long-term incentive vesting against max opportunity %
Iain Conn			
2017	1,694	0	26
2016	4,040	82	0
2015	3,025	63	0
Sam Laidlaw			
2014	3,272	34	35
2013	2,235	50	0
2012	5,709	61	67
2011	5,047	50	59
2010	5,322	91	62

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the eight-year period to 31 December 2017. The FTSE 100 Index has been chosen as it is an index of similar sized companies and Centrica has been a constituent member throughout the period.

Total return indices – Centrica and FTSE 100



Fees received for external appointments of Executive Directors

In 2017, Iain Conn received £121,000 (£121,000 in 2016) as a non-executive director of BT Group plc.

Mark Hanafin represents Centrica as a non-executive director of EDF Energy Nuclear Generation Group Limited and Mark Hodges represents Centrica as a director of Energy UK. Neither Executive receives any fees or remuneration relating to these external appointments.

Relative importance of spend on pay

The following table sets out the amounts paid in dividends and staff and employee costs for the years ended 31 December 2016 and 2017.

	2017 £m	2016 £m	% Change
Dividends	463	532	-13%
Staff and employee costs ⁽¹⁾	1,998	2,183	-8%

(1) Staff and employee costs are as per note 5 in the Notes to the Financial Statements.

Payments for loss of office (audited)

During 2017, there were no payments made for loss of office.

Payments to past Directors (audited)

During 2017, no payments were made to past Directors with the exception of the payments disclosed in the single figure for total remuneration table on page 82.

Funding of share schemes in 2017

During 2017, market purchased shares, held in an employee benefits trust, were used to satisfy outstanding allocations under the DMSS (deferred and investment shares), the Long Term Incentive Scheme (LTIS) 2014, the Restricted Share Scheme and the On Track Incentive Plan (conditional share plans for Centrica employees below the executive level). Treasury shares were used to satisfy the release of awards or the exercise of options under the DMSS, the LTIS, the Share Award Scheme, the On Track Incentive Plan and Centrica's all-employee share plans. At 31 December 2017, 42,060,842 shares were held in treasury (2016: 50,833,460), following the share repurchase programme throughout 2013 and 2014.

Advice to the Remuneration Committee

Following a competitive tender process, PwC was appointed as independent external adviser to the Committee in May 2017, replacing Aon Consulting Ltd (Aon) who had been acting as the interim external adviser since March 2016.

PwC also provided advice to Centrica globally during 2017 in the areas of employment taxes, regulatory risk and compliance issues and additional consultancy services.

PwC's fees for advice to the Committee during 2017 amounted to £48,000 which included the preparation for and attendance at Committee meetings. The fees were charged on a time spent basis in delivering advice that materially assisted the Committee in their consideration of matters relating to executive remuneration.

Aon has also provided advice and services to Centrica globally during 2017 in the areas of payroll and workforce administration as well as system and process implementation. Aon's fees for advice to the Committee during 2017 amounted to £2,900.

The Committee takes into account the Remuneration Consultants Group's (RCG) Code of Conduct when dealing with its advisers. Both PwC and Aon are members of the RCG and the Committee is satisfied that the advice it received during the year was objective and independent and that the provision of any other services by PwC and Aon in no way compromises their independence.

Statement of voting

Shareholder voting on the resolutions to approve the Directors' Remuneration Policy, put to the 2015 AGM, and the Directors' Remuneration Report, put to the 2017 AGM, was as follows:

Directors' Remuneration Policy

Votes for	%	Votes against	%
3,102,582,374	91.62	283,889,125	8.38

16,276,123 votes were withheld.

Directors' Remuneration Report

Votes for	%	Votes against	%
3,197,228,432	86.2	511,925,395	13.8

157,070,092 votes were withheld.

Implementation in the next financial year

Base salaries for Executives were reviewed in January 2018 and the Committee agreed that there will be no salary increases for any of the Executives in 2018.

No changes to pensions or benefits for current Executives are anticipated.

AIP awards will be in line with the limits set out in the Remuneration Policy table, not exceeding 200% of base salary. 75% of the award will be based on a mix of financial measures based on Centrica's priorities for the forthcoming year and 25% will be based on personal objectives.

For the operation of the AIP in 2018, 20% of the financial measures will be based on cost efficiency, 40% of the financial measures will be based on adjusted operating cash flow (AOCF) and 40% of the financial measures will be based on operating profit, with targets aligning to the Group Annual Plan. The targets are considered commercially sensitive until the year end and will therefore be disclosed retrospectively in the Remuneration Report for 2018.

LTIP awards will be granted based on 250% of base salary, in recognition of the current level of Centrica's share price. The performance measures will consist of relative total shareholder

return (TSR) with a weighting of 33.3%, underlying adjusted operating cash flow (UACOF) growth with a weighting of 22.2%, economic profit (EP) with a weighting of 22.2% and non-financial KPIs with a weighting of 22.2%.

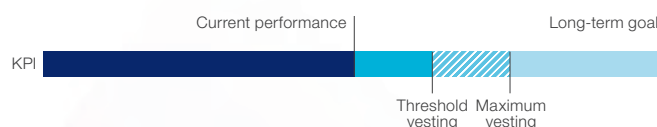
It is proposed that the following financial targets will apply to the 2018 LTIP awards:

Proposed measures	Proposed targets	
	Threshold	Maximum
UACOF growth	CAGR 2% ⁽¹⁾	CAGR 5% ⁽¹⁾
Absolute aggregate EP	£1,625m	£2,125m
Relative TSR	FTSE 100 median	FTSE 100 upper quartile

(1) Compound annual growth rate.

It is proposed that threshold performance will equate to 25% vesting and maximum performance will be 100% vesting. Vesting between stated points will be on a straight-line basis.

We propose to measure KPI improvement by reference to closure of the gap between current performance and our long-term aspirational goals which are generally aligned with upper quartile market performance:



For each LTIP cycle we expect the KPI performance gap to close by 25% for threshold vesting and 50% for maximum vesting.

The KPI measures and targets will be:

	Current performance ^f	Targets		Long-term goal
		Threshold	Maximum	
Safety				
Total recordable injury frequency rate (TRIFR) ⁽¹⁾	0.98	0.80	0.45	0.25
Tier 1 and Tier 2 process safety event frequency rate ⁽¹⁾	0.14	0.13	0.12	0.1
Customer satisfaction				
Aggregate brand NPS across our customer businesses weighted by customer numbers	+9.4	+12.05	+14.70	+20
Complaints per 100,000 customers across our customer businesses weighted by customer accounts	3,739	3,284	2,815	1,877
Employee engagement	52	58.25	64.50	77

(1) Per 200,000 hours worked.

Changes since 1 January 2018

Share Incentive Plan (SIP)

During the period from 1 January 2018 to 21 February 2018 Mark Hanafin acquired 263 shares and Iain Conn and Mark Hodges both acquired 262 shares through the SIP.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Grant Dawson
Group General Counsel & Company Secretary
21 February 2018

Remuneration Policy

As Centrica's Directors' Remuneration Policy (Policy) was last approved by shareholders at the Annual General Meeting (AGM) in 2015, it will be the subject of a shareholder vote at the AGM in May 2018. In carrying out the Policy review during the year, the Committee was mindful of the need to consider further simplification, improved alignment with our strategy and evolving stakeholder views on executive pay.

Set out over the following pages is the Policy that will take legal effect from the conclusion of the 2018 AGM, subject to shareholder approval.

Executive Directors' remuneration

The Committee believes that the remuneration arrangements are aligned with the organisation's strategic goals as well as the experience and expectation of shareholders.

The revised Policy more closely aligns the interests of the Executive Directors (Executives) with the delivery of long-term shareholder value through returns and growth whilst ensuring behaviours remain consistent with the governance and values of the business.

Objectives

The Policy aims to deliver remuneration arrangements that:

- attract and retain high calibre Executives in a challenging and competitive global business environment;
- place strong emphasis on both short-term and long-term performance;
- are strongly aligned to the achievement of strategic objectives and the delivery of sustainable long-term shareholder value through returns and growth; and
- seek to avoid creating excessive risks in the achievement of performance targets.

Remuneration framework

The design of the remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance and delivered in shares over a three-five year period.

Total remuneration comprises fixed pay and variable performance-related pay, which is further divided into short-term incentive (with a one-year performance period) and long-term incentive (with a three-year performance period).

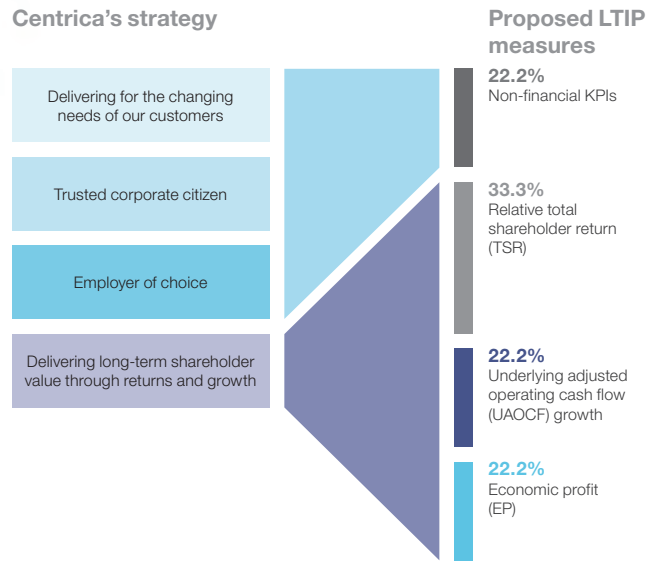
Fixed remuneration includes base salary, benefits and pension. Short-term incentive is delivered through the Annual Incentive Plan (AIP) which is described on page 92. Long-term incentive is delivered through the Long Term Incentive Plan (LTIP) which is described on page 92. Both plans are underpinned by stretching performance measures and targets that closely link to our strategy.

Performance measures

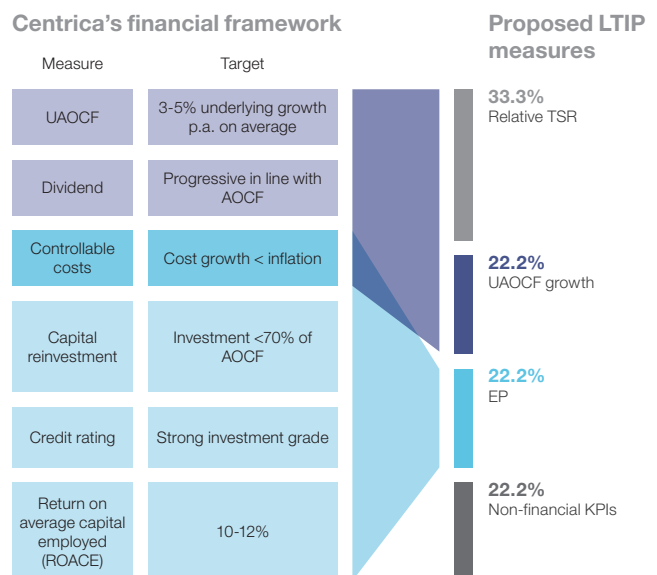
The Committee believes that the performance measures selected will help drive our customer-focused strategy, allowing us to deliver for our customers, our employees and our shareholders.

How the LTIP measures link to our strategy

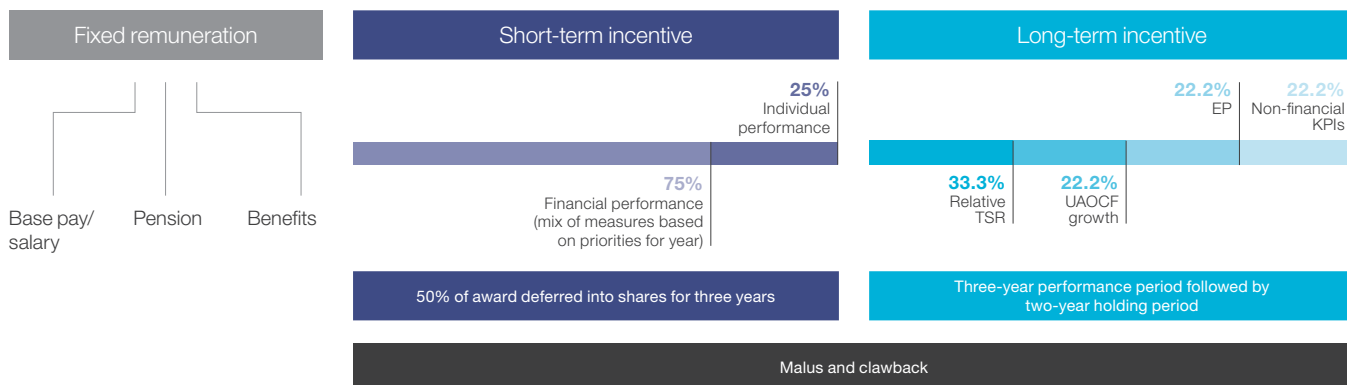
The chart below shows our strategy linked to the proposed LTIP measures. Our strategy is set out in more detail on pages 10 to 11.



The chart below shows our long-term financial goals linked to the proposed LTIP measures. Our long-term financial goals are set out in more detail on page 13.



Summary of Policy design



Remuneration Policy table

The table below sets out the Policy that will apply from 14 May 2018, subject to shareholder approval.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
<p>Base pay/salary</p> <p>Reflects the scope and responsibility of the role and the skills and experience of the individual.</p> <p>Salaries are set at a level sufficient for the Group to compete for international talent and to attract and retain Executives of the calibre required to develop and deliver our strategy.</p>	<p>Base salaries are reviewed annually, taking into account individual and business performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year.</p>	<p>Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group.</p> <p>Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression/development in the role or a significant increase in the scale or size of the role.</p> <p>The base salary for an Executive will not exceed £1 million per annum.</p> <p>This is consistent with the previously approved policy.</p>	<p>Not applicable.</p>

Remuneration Policy (continued)

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
<p>Short-term incentive plan</p> <p>Designed to incentivise and reward the annual performance of individuals and teams in the delivery of short-term financial and non-financial metrics.</p> <p>Performance measures are linked to the delivery of the Group's long-term financial goals and key Group priorities.</p>	<p>In line with the Group's annual performance management process, each Executive has an agreed set of stretching individual objectives each year.</p> <p>Following measurement of the individual and company financial performance outcome Annual Incentive Plan (AIP) awards are made. Half of the AIP award is paid in cash. The other half is required to be deferred into shares which are held for three years, to further align the interests of Executives with the long-term interests of shareholders. Dividends are payable on the shares during the holding period.</p> <p>If overall business performance is not deemed satisfactory, an individual's AIP payment for the year may be reduced or forfeited, at the discretion of the Committee.</p> <p>Malus and clawback apply to the cash and share awards (see policy table notes).</p>	<p>Maximum of 200% of base salary. Half the maximum is payable for on-target performance.</p> <p>This is consistent with the previously approved policy.</p>	<p>75% based on a mix of financial performance measures aligned to Centrica's priorities for the forthcoming year and 25% based on individual objectives aligned to the Group's priorities and strategy.</p> <p>Under the previously approved policy, 62.5% was based on adjusted operating cash flow and 37.5% was based on individual objectives.</p> <p>Performance is assessed over one financial year.</p>
<p>Long-term incentive plan</p> <p>Designed to retain Executives and to encourage sustainable high performance.</p> <p>Provides an incentive that aligns with the Group's strategy to deliver long-term shareholder value through returns and growth.</p> <p>Provides a direct link between executive remuneration and the Group's long-term financial goals and priorities.</p>	<p>Long Term Incentive Plan (LTIP) awards are granted to Executives each year based on a percentage of base salary at the point of award. Shares vest at the end of a three-year performance period, depending on the achievement against the performance targets, but are not released until the fifth anniversary of the award date.</p> <p>LTIP awards are usually delivered as conditional shares. Awards may also be granted as nil-cost options with a seven-year exercise period. It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year holding period (see policy table notes).</p> <p>Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash.</p> <p>If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.</p>	<p>Maximum of 300% of base salary plus dividend equivalents.</p> <p>This is consistent with the previously approved policy.</p> <p>The amount payable for achieving the minimum level of performance is 5.55% of award. Under the previously approved policy, the minimum level was 0%.</p>	<p>33.3% based on relative total shareholder return (TSR) with the remainder equally weighted and based on underlying adjusted operating cash flow (UAOCF) growth, absolute aggregate economic profit (EP) and non-financial KPIs, all measured over a three-year performance period.</p> <p>Under the previously approved policy, performance measures were equally weighted and based on earnings per share (EPS), absolute aggregate EP and non-financial KPIs, measured over a three-year performance period.</p>

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
<p>Pension</p> <p>Positioned to provide a market-competitive post-retirement benefit, in a way that manages the overall cost to the Company.</p>	<p>Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement.</p> <p>The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement.</p>	<p>For newly recruited Executives the maximum benefit is 25% of base salary.</p> <p>For existing Executives appointed between 2015 and 2017, the maximum benefit is 30% of base salary for the Group Chief Executive and 25% of base salary for all other Executives.</p>	Not applicable.
<p>Benefits</p> <p>Positioned to support health and wellbeing and to provide a competitive package of benefits that is aligned with market practice.</p>	<p>Executives appointed prior to 2015 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts.</p> <p>We would only continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such benefit.</p>	<p>For Executives appointed prior to 2015, the maximum benefit is 40% of base salary.</p>	Not applicable.
<p>Relocation and expatriate assistance</p> <p>Enable the Group to recruit or promote the appropriate individual into a role, to retain key skills and to provide career opportunities.</p>	<p>The Group offers Executives a range of benefits including some or all of:</p> <ul style="list-style-type: none"> • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening and wellbeing services; and • a contribution towards financial planning advice. 	<p>Cash allowance in lieu of company car – £22,000 per annum.</p> <p>The benefit in kind value of other benefits will not exceed 5% of base salary.</p> <p>This is consistent with the previously approved Policy.</p>	Not applicable.
<p>All-employee share plans</p> <p>Provide an opportunity for employees to voluntarily invest in the Company.</p>	<p>Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation.</p>	<p>Maximum of 100% of base salary.</p> <p>This is consistent with the previously approved Policy.</p>	Not applicable.
<p>All-employee share plans</p> <p>Provide an opportunity for employees to voluntarily invest in the Company.</p>	<p>Executives are entitled to participate in all-employee share plans on the same terms as all other eligible employees.</p>	<p>Maximum contribution limits are set by legislation or by the rules of each plan. Levels of participation apply equally to all participants.</p> <p>This is consistent with the previously approved Policy.</p>	Not applicable.

Remuneration Policy (continued)

Policy table notes

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Policy set out on pages 90 to 97, where the terms of the payment were agreed before the Policy came into effect, at a time when the relevant individual was not an Executive of the Company or, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive of the Company. For these purposes payments include the amounts paid in order to satisfy awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

The Committee may make minor amendments to the Policy set out on pages 90 to 97 (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Performance measures

We continue to be committed to full transparency and disclosure. We will disclose all targets as soon as any commercial sensitivity falls away. At the latest, this will be at the end of the performance period.

Relative total shareholder return (TSR)

Compares Centrica's TSR (share price growth plus dividends) for the performance period with the TSR ranking of the other companies in the FTSE 100 Index.

The FTSE 100 Index has been chosen as it is a broad equity index of which Centrica is a constituent member and reflects the investment interests of our UK shareholder base.

Underlying adjusted operating cash flow (UAOCF) growth

Growth in net cash flow from operating activities (which includes taxes paid) adjusted to include dividends received from joint ventures and associates and to exclude payments relating to exceptional items, UK defined benefit pension deficit contributions and movements in variation margin and cash collateral that are included in net debt.

This is adjusted for the impact of commodity price movements in Exploration & Production/nuclear, foreign exchange movements and any material one-off working capital items to give a measure of underlying growth.

Economic profit (EP)

EP is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital.

Further details of these performance measures are provided in notes 2, 4 and 10 of the Financial Statements, in the Annual Report and Accounts 2017. In addition, see page 216 for an explanation of UAOCF.

Non-financial KPIs

Based on the Group's non-financial KPIs, using three-year targets for improvement.

Malus and clawback

The Committee can apply malus (that is reduce the number of shares in respect of which an award vests) or delay the vesting of awards if it considers it appropriate where a participant has engaged in gross misconduct or displayed inappropriate management behaviour which fails to reflect the governance and values of the business or where the results for any period have been restated or appear inaccurate or misleading.

Where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback in the event that the Committee determines that one or more of the circumstances above has occurred.

Pension arrangements applying to Executives

Centrica Unfunded Pension Scheme (CUPS)

All registered scheme benefits are subject to HMRC guidelines and the Lifetime Allowance.

The CUPS defined contribution (DC) section provides benefits for individuals not eligible to join the CUPS defined benefit (DB) section and for whom registered scheme benefits are expected to exceed the Lifetime Allowance. The CUPS DC section is offered as a direct alternative to a cash salary supplement.

The CUPS DB section was closed to new members in October 2002.

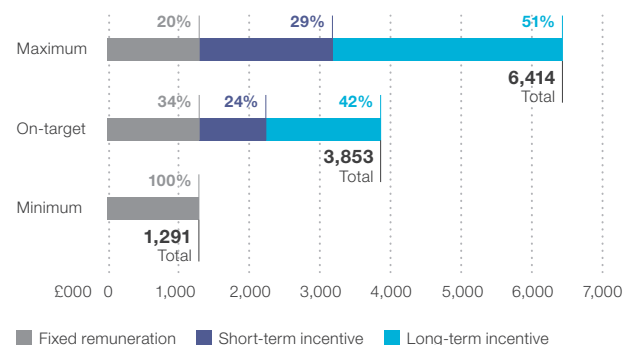
CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's balance sheet.

Total remuneration by performance scenario

The charts below indicate the minimum, on-target and maximum remuneration that could be received by each Executive, excluding share price movement, under the Policy. Assumptions made for each scenario are:

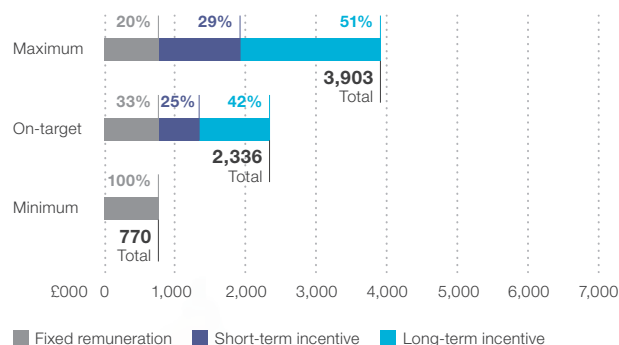
- minimum – fixed remuneration only (base salary at current level, together with pension and benefits as set out in the Remuneration Policy table);

Iain Conn

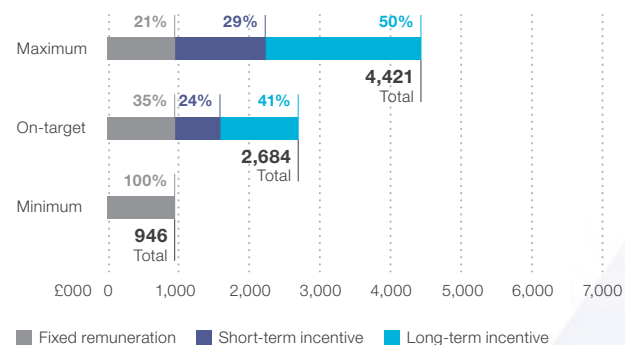


- on-target – fixed remuneration plus target AIP (as set out in the Remuneration Policy table) and expected value under the LTIP on vesting of 50%; and
- maximum – fixed remuneration plus maximum AIP opportunity and maximum levels of vesting under the LTIP (as set out in the Remuneration Policy table).

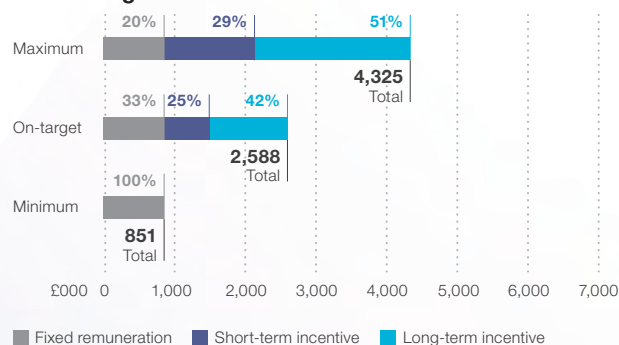
Jeff Bell



Mark Hanafin



Mark Hodges



Discretion and judgement

It is important that the Committee maintains the flexibility to apply discretion and judgement to achieve fair outcomes as no remuneration policy and framework, however carefully designed and implemented, can pre-empt every possible scenario. The Committee needs to be able to exercise appropriate discretion to determine whether mechanistic or formulaic outcomes are fair, in context and can be applied in an upward or downward manner when required. Judgement is applied appropriately by the Committee, for example when considering the political and social pressures on the business, the impact of significant movements in external factors such as commodity prices, in setting and evaluating delivery against individual and non-financial performance targets to ensure they are considered sufficiently stretching and that the maximum and minimum levels are appropriate and fair.

The Committee has absolute discretion to decide who receives awards, the level of the awards under the incentive plans and the timing, within the parameters set in the rules.

In the case of a corporate action, the Committee can agree when a corporate action applies to a share award, whether awards pay out or are rolled over in this situation and how any special dividend might apply. The Committee also maintains the discretion to adjust any awards in the event of a variation of capital, for example to maintain the incentive value at the level originally intended.

The Committee retains discretion, consistent with market practice, regarding the operation and administration of the incentive plans including, but not limited to, the following:

- agreeing appropriate measures and setting targets aligned to the Group's priorities or KPIs;
- determination of the result of any disputes relating to the interpretation of the rules;
- alteration of the terms of the performance targets if it feels that they are no longer a fair measure of the Company's performance, as long as the new targets are not materially less challenging than the original ones; and
- determination that any award is forfeit in whole or in part.

The Committee also retains the discretion to forfeit or clawback deferred awards if it determines that prior performance which resulted in the annual bonus being awarded was discovered to be a misrepresentation of results or inappropriate management behaviour which fails to reflect the governance or values of the business.

Remuneration Policy (continued)

Recruitment policy

The Committee will apply the same remuneration policy during the policy period as that which applies to existing Executives when considering the recruitment of a new Executive in respect of all elements of remuneration as set out in the Remuneration Policy table.

Whilst the maximum level of remuneration which may be granted would be within plan rules and ordinarily subject to the maximum opportunity set out in the Remuneration Policy table, in certain circumstances, an arrangement may be established specifically to facilitate recruitment of a particular individual up to 25% above the maximum opportunity, albeit that any such arrangement would be made within the context of minimising the cost to the Company. The policy for the recruitment of Executives during the policy period includes the opportunity to provide a level of compensation for forfeiture of bonus entitlements and/or unvested long-term incentive awards from an existing employer, if any, and the additional provision of benefits in kind, pensions and other allowances, as may be required in order to achieve a successful recruitment.

Service contracts

Service contracts provide that either the Executive or the Company may terminate the employment by giving one year's written notice. The Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year.

All Executive and Non-Executive Directors are required to be re-elected at each AGM.

Termination policy

The Committee carefully considers compensation commitments in the event of an Executive's termination. The aim is to avoid rewarding poor performance and to reduce compensation to reflect the departing Executive's obligations and to mitigate losses.

Save for summary dismissal, the policy is to either continue to provide base salary, pension and other benefits for any unworked period of notice or, at the option of the Company, to make a payment in lieu of notice comprising base salary only. Typically any payment in lieu of notice will be made in monthly instalments and reduce, or cease completely, in the event that remuneration from new employment is received.

An AIP award for the year in which the termination occurs may be made following the normal year end assessment process, subject to achievement of the agreed performance measures and time-apportioned for the period worked. Any award would be payable at the normal time with a 50% deferral and no new long-term incentive plan awards would be made.

Except in cases of death in service, the policy is not to vest any existing long-term incentive plan awards earlier than their normal vesting date. In all cases any vesting remains subject to satisfaction of the associated performance conditions and will be time-apportioned for the period worked.

Executives leaving following resignation will forfeit any potential AIP award for the performance year in which the resignation occurs and all unvested LTIP awards. In addition, Executives summarily dismissed will also forfeit any deferred shares. Deferred awards can also be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business or where the results for any period appear inaccurate or misleading.

On a change of control, existing LTIP awards will be exchanged on similar terms or vest to the extent that the performance conditions have been met at the date of the event and be time-apportioned to the date of the event or the vesting date, subject to the overriding discretion of the Committee.

Pay fairness across the Group

The Group operates in a number of different environments and has many employees who carry out a range of diverse roles across a number of countries. In consideration of pay fairness across the Group, the Committee believes that ratios related to market competitive pay for each role profile in each distinct geography are the most helpful.

When the ratio of salary to the relevant market median is compared for all permanent employees across the Group the median ratio is 0.98. The 25th percentile is 0.96 and the 75th percentile is 1.09.

Unlike the significant majority of the workforce who receive largely fixed remuneration, mainly in the form of salary, the most significant component of Executive compensation is variable and dependent on performance. As such, the Committee reviews total compensation for Executives against benchmarks rather than salary alone. The ratio of on-target total pay opportunity for the Group Chief Executive versus the relevant market median is 0.99.

A number of performance-related incentive schemes are operated across the Group which differ in terms of structure and metrics from those applying to Executives.

The Group also offers a number of all-employee share schemes in the UK, Ireland and North America and Executives participate on the same basis as other eligible employees.

Performance measures applying to Executives are cascaded down through the organisation and Group employment conditions include high standards of health and safety and employee wellbeing initiatives.

No consultation in respect of Executive remuneration takes place with employees during the year.

Shareholding requirement

A minimum shareholding requirement is in place for Executive Directors to build and maintain a value of shares over a five-year period equal to 300% of base salary, with a condition that 75% of vested incentive shares (post-tax) will be retained until the requirement has been met.

A post-cessation shareholding requirement of 50% of the shareholding requirement (or full actual holding if lower) is applicable for 24 months post-cessation.

External appointments of Executives

It is the Company's policy to allow each Executive to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy.

Fees received in respect of external appointments are retained by the individual Executive and are set out in the Directors' Annual Remuneration Report each year.

Non-Executive Directors' remuneration

Remuneration Policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract the high calibre individuals required to support the delivery of our strategy.

Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association. All Non-Executives are required to be re-elected at each AGM.

Remuneration Policy table

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
<p>Chairman and Non-Executive Director fees</p> <p>Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans.</p> <p>Fees reflect market practice as well as the responsibilities and time commitment required by our Non-Executives.</p>	<p>The fee levels for the Chairman are reviewed every two years by the Remuneration Committee.</p> <p>The fee levels of the Non-Executives are reviewed every two years by the Executive Committee.</p> <p>Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee.</p> <p>Fee levels applying from 1 January 2016</p> <p>Chairman of the Board – £495,000 per annum.</p> <p>Base fee for Non-Executives – £72,500 per annum.</p> <p>The following additional fees apply:</p> <ul style="list-style-type: none"> • Chairman of Audit Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and • Senior Independent Director – £20,000 per annum. <p>The Company reserves the right to pay a Committee membership fee in addition to the base fees.</p> <p>Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive.</p> <p>The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.</p> <p>Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.</p>	<p>The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.</p>	<p>Not applicable.</p>

Recruitment policy

The policy on the recruitment of new Non-Executives during the policy period would be to apply the same remuneration elements as for the existing Non-Executives. It is not intended that variable pay, day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances. The Committee will include in future Remuneration Reports details of the implementation of the policy as utilised during the policy period in respect of any such recruitment to the Board.

Other Statutory Information

The Directors submit their Annual Report and Accounts for Centrica plc, together with the consolidated Financial Statements of the Centrica group of companies, for the year ended 31 December 2017. The directors' report required under the Companies Act 2006 (the Act) comprises this Directors' and Corporate Governance Report (pages 63 to 77), the Remuneration Report (pages 78 to 97), Other Statutory Information (pages 98 to 100) and the Responsible Business section for disclosure of our greenhouse gas emissions in the Strategic Report (page 36).

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the Strategic Report (pages 2 to 62) (which includes the risks relating to our business), Shareholder Information (page 215) and details of acquisitions and disposals made by the Group during the year in note 12 (pages 136 to 138). This Directors' and Corporate Governance Report fulfils the requirements of the corporate governance statement required under Disclosure & Transparency Rule 7.2.1.

Annual General Meeting (AGM)

The AGM of Centrica plc will be held at the QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Monday 14 May 2018 at 2.00pm. Further information is available in the Notice of AGM (see centrica.com/aggm18).

Future developments

A description of future developments can be found in the Strategic Report. A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 52 to 62.

Results and dividends

The Group's results and performance summary for the year are set out on page 3. Dividends paid and proposed are set out in note 11 to the Financial Statements on page 135.

Financial instruments

Full details of the Group's financial instruments can be found in notes 19, S3 and S6 on pages 145 to 146, 169 to 173 and 176 to 178 respectively.

Articles of Association (Articles)

The Company's Articles were adopted at the 2010 AGM and were amended at the 2016 AGM. They may only be amended by a special resolution of the shareholders.

Directors

The names of the Directors who held office during the year are set out on pages 64 to 65.

Details of the composition of the Board and role of Directors are set out within this Directors' and Corporate Governance Report on page 68.

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and members of the Executive Committee. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2017 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers.

Employment policies

Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Group Chief Executive and members of the Board at key points in the year.

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. We offer tax-advantaged Sharesave (SAYE) schemes in the UK and Ireland, and a Share Incentive Plan (SIP) in the UK, with good levels of take-up for all share plans across the Group. Currently, 50% of eligible employees participate in Sharesave, 31% of eligible employees participate in the SIP.

Equal opportunities

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

 [Read more in Responsible Business](#)
Pages 32 to 38

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria and we endeavour to retain employees in the workforce if they become disabled during employment. This commitment was recognised in January 2018 by our achievement of level 1 Disability Confident Status and in 2017 we launched a Disability and Wellbeing Network to help employees impacted by disability to access the support they need to thrive at work.

Human rights

As an international company we have a responsibility and are committed to uphold and protect the human rights of individuals working for us in the communities and societies where we operate. We take steps to ensure that our people working in countries with a high risk to human rights are safeguarded, as set out in Our Code. We also recognise the opportunity we have to contribute positively to global efforts to ensure human rights are understood and observed.

 [Read more in Responsible Business](#)
Pages 32 to 38

Political donations

Centrica operates on a politically neutral basis. No political donations were made by the Group for political purposes during the year. However, in accordance with the United States Federal Election Campaign Act, a Political Action Committee (PAC) called Direct Energy Employee Political Action Committee (DEEPAC) was formed to facilitate voluntary political contributions by its US employees. DEEPAC is controlled by neither Centrica nor Direct Energy but instead by a governing board of individual employee members of DEEPAC on a voluntary basis. Direct Energy, as authorised by law, has provided limited administrative support to DEEPAC. DEEPAC has been organised to provide a vehicle to dispense voluntary contributions from eligible employees. Participation in DEEPAC is entirely voluntary for eligible employees, and political donations from DEEPAC are determined by a governing board of DEEPAC members. In 2017, contributions to DEEPAC by employees amounted to \$62,768, and DEEPAC made 95 political donations totalling \$72,800.

Engagement with shareholders

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

In 2017, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2016 preliminary results, 2017 interim results and Capital Markets Day;
- meetings between the Group Chief Executive and Group Chief Financial Officer and the Company's major shareholders during the year;
- the Chairman of the Remuneration Committee meeting with a number of the Company's major shareholders during the year to discuss the Company's remuneration arrangements;
- the Chairman and Senior Independent Director meeting with major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provide regular updates of these to the Board; and
- a meeting with our largest investors and leading proxy advisers to provide insight into the key focus and considerations of the Board and its Committees and a better understanding of the governance measures operating across the business.

The Company's AGM provides all shareholders with the opportunity to further develop their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and Accounts 2017 and the running of the Company generally. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors, including Committee Chairmen, are due to be in attendance at the AGM to take questions.

At the AGM, the Chairman and the Group Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on our website.

Stephen Hester, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

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

Material shareholdings

At 31 December 2017, Centrica had received notification of the following material shareholdings pursuant to the Disclosure & Transparency Rules:

	% of share capital ⁽¹⁾
BlackRock, Inc.	5.93
Schroders Investment Management Limited	5.72
Newton Investment Management Limited	4.99

(1) Percentages are shown as a percentage of the Company's issued share capital when the Company was notified of the change in holding. As at 21 February 2018, there were no changes in the details shown in the above table.

Share capital

The Company has a single share class which is divided into ordinary shares of 6¹⁴/₆₁ pence each. The Company was authorised at the 2017 AGM to allot up to 1,829,855,996 ordinary shares as permitted by the Act. A renewal of this authority will be proposed at the 2018 AGM. The Company's issued share capital as at 31 December 2017, together with details of shares issued during the year, is set out in note 25 to the Financial Statements.

Rights attaching to shares

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders is set out in the Articles and in explanatory notes which accompany notices of general meetings, all of which are available on our website.

Repurchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2017 AGM to purchase its own shares up to a maximum of 548,956,799 ordinary shares. No shares were purchased under this authority in 2017.

As at 31 December 2017, 42,060,842 shares were held as treasury shares. These shares held in treasury represent 0.75% of the Company's issued share capital. Dividends are waived in respect of shares held in the treasury share account.

Shares held in employee benefit trusts

The Centrica plc Employee Benefit Trust (EBT) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Deferred and Matching Share Scheme, the Restricted Share Scheme and the On Track Incentive Plan. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the SIP. Both the Trustees of the EBT and the SIP Trust, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP Trust at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participants' instructions. In the absence of any instruction, the Trustees shall not vote.

Significant agreements – change of control

There are a number of agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreement of this kind relates to 2009, when Centrica entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of Centrica, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group.

Sustainability

Information about the Company's approach to sustainability risks and opportunities is set out on pages 32 to 38. Also included in these pages are details of our greenhouse gas emissions.

Related party transactions

Related party transactions are set out in note S8 to the Financial Statements.

Other Statutory Information (continued)

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 26 to the Financial Statements.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. All such disclosures are included in this Directors and Corporate Governance Report, other than the following sections of the Annual Report and Accounts 2017:

Information	Location in Annual Report	Page(s)
Directors' compensation	Remuneration Report	78 to 97
Capitalised interest (borrowing costs)	Financial Statements	131, note 8
Details of long-term incentive schemes	Remuneration Report	85 to 86

Going concern

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare the Financial Statements on a going concern basis. The Group's business activities, together with factors that are likely to affect its future development and position, are set out in the Group Chief Executive's statement on pages 6 to 9 and the Business Reviews on pages 40 to 47. After making enquiries, the Board has a reasonable expectation that Centrica plc and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position are provided in notes 24 and S3 to the Financial Statements.

Directors' responsibilities statement

The Directors, who are named on pages 64 to 65, are responsible for preparing the Annual Report, the Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Remuneration Report comply with the Act and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts 2017, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Each of the Directors confirm that to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the Strategic Report contained on pages 2 to 62 together with the Directors' and Corporate Governance Report on pages 63 to 100, 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;
- as outlined on page 73, there is no relevant audit information of which Deloitte LLP are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Grant Dawson
Group General Counsel & Company Secretary
 21 February 2018

Financial Statements

Contents

102	Independent Auditors' Report	190	Company Financial Statements
110	Group Income Statement	192	Notes to the Company Financial Statements
111	Group Statement of Comprehensive Income	201	Gas and Liquids Reserves (Unaudited)
112	Group Statement of Changes in Equity	202	Five Year Summary (Unaudited)
113	Group Balance Sheet	203	Ofgem Consolidated Segmental Statement
114	Group Cash Flow Statement		
115	Notes to the Financial Statements		

Independent Auditor's Report

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of Centrica plc (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group Balance Sheet;
- the Company Balance Sheet;
- the Group Statement of Changes in Equity;
- the Company Statement of Changes in Equity;
- the Group Cash Flow Statement; and
- related notes on pages 115 to 200 which include the summary of accounting policies.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- impairment assessment for long-life assets and goodwill;
- estimation of energy supply revenue;
- valuation of commodity trades;
- presentation of exceptional items and certain re-measurements; and
- accounting for the acquisition of the Bayerngas exploration and production assets.

Key audit matters considered by the Group's auditor in the prior year were broadly aligned with the items identified above, but also included consideration of onerous contracts (which are less significant in the current year with no new contracts considered to be onerous) and pensions (which while material, we do not consider to be a key audit matter as the assumptions have not changed materially in the current year). Accounting for the acquisition of Bayerngas Norge AS's exploration and production business was not relevant in the prior year.

Materiality £50 million

The materiality that we used in the current year was £50 million which was determined on the basis of 5.5% profit before tax before exceptional items and certain re-measurements as defined in note 7.

Scoping All segments in full scope

All divisions of the Group have been subject to a full scope audit using a component materiality level relevant to the size and risk associated with that business. The decision to include all divisions in our full audit scope was to enhance our understanding of the Group and ensure that our audit was appropriately scoped in our first year as auditor.

First year audit transition We have completed a smooth and effective transition

We developed a detailed audit transition plan, designed to deliver an effective transition from the Group's predecessor auditor, PricewaterhouseCoopers LLP ('PwC'). Our audit planning and transition commenced on 1 January 2017, when we confirmed our independence to the Group's Audit Committee. Our transition activities were performed across the Group's business divisions, which included (but were not limited to) meeting relevant partners and senior staff from PwC, shadowing PwC in the 2016 audit close meetings, attending the February 2017 Audit Committee meeting where the final report on the audit was presented and reviewing PwC's 2016 audit work papers. In March 2017, we held an audit transition planning workshop with senior members of our component teams in order to design our audit strategy and approach. Senior management relevant to the audit also participated in detailed transition workshops involving each division, together with Internal Audit and Group Finance. Our transition focused on obtaining an understanding of the Group's system of internal control, evaluating the Group's accounting policies and areas of accounting judgement and meeting with management across all divisions.

Conclusions relating to principal risks, going concern and viability statement

Going concern

We have reviewed the Directors' statement on page 100 of the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 52 to 60 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on pages 55 and 100 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 61 and 62 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (continued)

Key audit matter description

Impairment assessment for long-life assets and goodwill

The Group owns significant upstream gas and oil assets, certain power generation assets and gas storage assets, and also recognises goodwill from historic acquisitions, which are required to be reviewed for indicators of impairment or tested at least annually for impairment as appropriate.

The impairment assessment involves management judgement in considering whether the carrying value of those assets or cash generating units are recoverable.

Determining the recoverable amount involves significant estimation including:

- forecasting future cash flows;
- forecasting future production or generation profiles;
- forecasting future commodity prices;
- estimating oil and gas reserves; and
- determining an appropriate discount rate.

We note that the Group's impairment tests are particularly sensitive to future commodity price assumptions and discount rates, as shown by the sensitivities disclosed in note 7(c).

As disclosed in notes 13, 14 and 15 the total book value of long-life assets and goodwill is £10.2 billion and following management's impairment testing a total impairment of £678 million was recorded. See note 3(b) for further details of the specific assets subject to key estimation uncertainty and notes 7(c) and S2 for details of other key assumptions used in estimating fair value less costs of disposal for these assets.

Due to the significance of the judgements and estimates involved in determining the recoverable amount, those assets that are the most material and subject to the greatest estimation were concluded to represent the highest risk of impairment, as explained in note 3(b) and specified above.

For these long-life assets and goodwill, we identified a key risk of material misstatement that these assets are not recoverable or that previously recorded impairments should be reversed.

Refer to pages 74 to 75 for the Audit Committee's review and conclusion of the key judgements underpinning the impairment assessment.

How the scope of our audit responded to the key audit matter

We understood management's process for identifying indicators of impairment and for performing their impairment assessment. We assessed the design and implementation of key controls relating to asset impairment models, the underlying forecasting processes and the impairment reviews performed.

We evaluated and challenged the key assumptions and inputs into the impairment models which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions.

We confirmed that forecast cash flows were consistent with Board approved forecasts and analysed reasonably possible downside sensitivities.

We validated production profiles to external reserve and operator estimates and agreed these to the cash flow forecast assumptions.

We evaluated the Group's determination of future commodity prices using our own internal experts, who benchmarked externally available future commodity price estimates and performed sensitivity analysis with alternative future prices.

We confirmed estimates of oil and gas reserves to third-party reserve reports, assessing the skills, qualifications and independence of these experts.

We involved our internal valuation specialists to evaluate management's discount rates, which involved benchmarking against available market views and analysis.

We evaluated the impairment or reversal judgements taken, with reference to our assessment of key assumptions as outlined above and the outcome of sensitivities performed. For potential reversal judgements, we understood the causes of any such reversal, and corroborated this to evidence of trigger events, and evaluated whether the reversal should or should not be recognised.

We audited the integrity of the impairment models and cash flow forecasts to test arithmetical accuracy. We recalculated the impairment charges, reversals or headroom and agreed to financial records. We reviewed the impairment disclosures against the requirements of IAS 36 'Impairment of Assets'.

We reviewed the presentation and disclosure of management's impairment assessment in the Financial Statements to assess whether the disclosure is consistent with the Group's policy and relevant accounting standards.

Key observations

We are satisfied that key assumptions used to determine the recoverable amount are appropriate, including estimates of reserves, production and generation profiles, and that the Group's discount rate assumptions are determined based on acceptable valuation methodologies and are reasonable when compared to the ranges determined by our internal valuation specialists.

We note that the Group's future commodity price estimates used for the impairment assessment are within the acceptable range of external sources, albeit at the higher end of this range. Based on the sensitivities that we performed on these assumptions, we are satisfied that the Group's pre-tax impairment charge of £678 million is not materially misstated, and long-life assets and goodwill are not further impaired. We concur with management's judgement that other than those reversals recognised, previously recorded impairments should not be reversed at this time.

Key audit matter description

Estimation of energy supply revenue

The recognition of energy supply revenue requires an estimation of customer usage between the date of the last meter reading and year end, known as unbilled revenue. There is particular uncertainty over estimating consumption arising from unusual weather patterns. Unbilled revenue recognised on the balance sheet at 31 December 2017 was £1.6 billion per note 3(b).

Our risk is focused on the accuracy, completeness and cut off of unbilled revenue, and the valuation of unbilled receivables in the UK and North American Home and Business segments.

We are required by auditing standards to presume there is a fraud risk in relation to revenue recognition, which we have pinpointed to the estimates underpinning the recognition of unbilled energy supply revenue and the potential for management override of related controls.

Refer to page 74 for the Audit Committee's review and conclusion of the key judgements included within unbilled revenue and notes 3(b) and 17 to the Financial Statements.

How the scope of our audit responded to the key audit matter

Our audit approach for unbilled revenue was a combination of tests of internal control and data analytics work. This included understanding the design of controls in the UK and North American revenue processes, from meter to cash collection and controls over the period-end revenue reconciliation process. In the UK, we tested the design, implementation and operating effectiveness of key controls relied on to estimate unbilled revenue. In North America, we assessed the design and implementation of controls around unbilled revenue.

We used data analytic tools in UK Home and Business to independently recalculate the unbilled revenue estimate generated by the billing systems for each customer account, in addition to auditing key manual adjustments made by management, and the key assumption, being the value of energy consumed since last billing used in the estimation process.

In our North America testing, we focused on creating an independent estimate of unbilled revenue at the year end and compared this to the estimate determined by management. We also performed a look-back analysis to compare the estimated settlement data against historical results and a gross margin analysis to estimate the valuation based on external market pricing.

In both the UK and North America, we also assessed the accuracy of the estimates made by management in prior periods. Any differences as a result of the work performed were investigated and challenged.

Key observations

We are satisfied that the estimation of the Group's unbilled revenue is materially correct. The estimation processes in the UK are appropriately controlled, but we note that the processes in North America are more manual in nature and we were not able to rely on the operating effectiveness of the relevant controls. We note that a reassessment of historical unbilled revenue in North America was identified by management and adjusted in the year, as explained in the Group Financial Review and the Audit Committee Report. We did not identify any material errors in the year-end estimate.

Valuation of commodity trades

In addition to proprietary trading activities, the Group enters into forward commodity contracts to optimise the value of its production, generation, storage and transportation assets as well as to meet the future needs of its customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. We identified the following risks in respect of commodity trades:

Valuation of complex trades

Judgement is required in valuing derivative contracts, particularly where there is optionality in a contract that requires modelling on a bespoke basis (Level 2 or 3 in accordance with IFRS 13 'Fair Value Measurement'). As such we identified a risk relating to the valuation of complex trades.

Own-use treatment

Certain commodity contracts have been entered into for the purposes of securing commodity for the energy supply businesses. Where contracts have been entered into that wholly satisfy Centrica's normal business activities these have been determined to be own-use contracts and are not fair valued. Due to the size and value of these contracts we have identified the appropriateness of the own-use treatment as a key audit matter.

We have understood the Group's processes and controls for authorising and recording commodity trades, and assessed the design and implementation of key controls.

In the Group's Energy Marketing & Trading (EM&T) division, we used data analytic tools to trace commodity trades from initiation to recording in the Group's accounting system, which included an assessment of whether the accounting recognition was in line with the Group's accounting policies and relevant accounting standards. This confirmed that trades were appropriately authorised, controlled and captured within the reporting system, and were appropriately and consistently reported in left hand column or middle column, in accordance with the Group's accounting policies on certain re-measurements (outlined in note 2(b)).

Valuation of complex trades

We used financial instrument specialists to assist the audit team in valuing complex trades, which included auditing the Group's valuation models by creating an independent valuation, or performing input and output analysis, for all material non-standard contracts.

Own-use treatment

We reviewed all the Group's material own-use contracts to determine whether the application of the own-use treatment was appropriate. We audited the prospective and retrospective demand tests performed by the Group to determine whether the contract volumes exceed the amount of estimated own-use demand in the relevant periods, including an evaluation of the contracts for net settlement activity.

Key observations

We are satisfied that commodity trades are valued appropriately.

In EM&T, we are satisfied that the accounting classification of trades is appropriate with trades tagged appropriately at inception.

In North America Business, we identified improvements to controls over the classification of trades and monitoring of net settlement activity for trades deemed to be own-use, which are being remediated. None have resulted in material uncorrected misstatements.

Independent Auditor's Report (continued)

Key audit matter description

Presentation of exceptional items and certain re-measurements

The selection and presentation of items excluded from adjusted profit involves significant management judgement and adjusted results are of particular interest to stakeholders. For this reason, we have identified this as an area where management would be able to directly influence results.

The Group's accounting policy for the presentation of exceptional items and certain re-measurements is disclosed in note 2(b). As disclosed in note 7 to the Financial Statements, exceptional items after taxation of £476 million and certain re-measurements after taxation of £69 million have been recognised in the current year.

Exceptional items include impairments or write backs on long-life assets, gains or losses on business disposals and costs associated with the Group's restructuring programme.

Where the Group enters into trades that give rise to an accounting mismatch between accrual accounted assets, contracts and demand and the marked to market accounted forward commodity contracts, the fair values of those contracts are accounted for separately as 'certain re-measurements' within the middle column of the Group's Income Statement and are excluded from business performance.

Due to the judgement involved in identifying and valuing these contracts, we have identified the appropriateness of the allocation of trades to the middle column as a key audit matter, as this has a significant impact on the Group's reported business performance.

There is a risk that adjusted profit measures are misleading and that the principles used to determine the classification as exceptional are not in line with relevant guidance, substantiated or applied on a consistent basis.

Refer to page 74 for the Audit Committee's consideration of exceptional items and certain re-measurements.

Key observations

We are satisfied that the items presented as exceptional and within certain re-measurements in the Financial Statements are in compliance with the Group's accounting policies, which have been applied consistently with prior periods, and are clearly described to readers.

Accounting for the acquisition of Bayerngas exploration and production assets

The Group acquired the European exploration and production assets of Bayerngas on 8 December 2017. Accounting for business combinations is complex and this transaction involved the acquisition of certain assets and liabilities, in return for a share of the Group's existing Exploration & Production assets, together with various complex contractual rights between the parties. The acquisition accounting is set out in note 12 and total consideration was £745 million with goodwill recognised on acquisition of £102 million.

We identified the following risks of material misstatement associated with the transaction:

- accounting for the transaction, including:
 - the assessment of control;
 - the assessment of shares issued as equity or debt instruments;
 - the valuation of consideration contributed and goodwill arising; and
 - the valuation of non-controlling interest.
- the fair valuation of assets acquired in the transaction with Bayerngas, which included evaluating reserve estimates, future production profiles and commodity prices and the selection of appropriate discount rates; and
- the disclosure of the business combination as presented in note 12 of the Financial Statements.

Refer to page 75 for the Audit Committee's review of business combinations, including the acquisition of Bayerngas Norge AS.

Key observations

We are satisfied that the accounting judgements taken are appropriate and that the fair values adopted are not materially misstated, although we refer to our observations on the Group's future commodity price assumptions outlined in the Impairment matter above. We note that using alternative price assumptions would have a significant impact on the valuation of acquired assets and the valuation of consideration payable for those assets.

How the scope of our audit responded to the key audit matter

We evaluated the Group's accounting policy for exceptional items and certain re-measurements against guidance issued by the Financial Reporting Council (FRC) and European Securities and Markets Authority (ESMA) regarding the publication of transparent, unbiased and comparable financial information.

We considered management's rationale for the treatment of exceptional items presented and performed our own independent assessment of the selection and presentation of each item against the Group's accounting policies and relevant regulatory guidance. We challenged management over the principles used to determine items as exceptional, assessing whether the application of the Group's policy was appropriate and consistent.

For certain re-measurements, we audited the principles management use to determine whether a trade should be recognised as part of ongoing business performance or presented separately. We evaluated whether those agreed principles had been applied consistently by reviewing key contracts and testing a sample of trades to confirm that the accounting treatment was appropriate.

We also verified that trades within certain re-measurements were entered into at market prices where the counterparty was another Group business, to ensure that profits and losses within the middle column reflect only market-related movements.

We reviewed the presentation and disclosure of these items in the Financial Statements to assess whether the disclosure is consistent with the Group's policy, in line with FRC and ESMA guidance, and understandable to readers.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Materiality	£50 million (2016: £59 million) The materiality for the Company accounts was determined to be £40 million (2016: £53 million), capped to be consistent with our highest component materiality.
Basis for determining materiality	We determined Group materiality on the basis of 5.5% of 2017 pre-tax profit adjusted for exceptional items and certain re-measurements as defined and reconciled in note 7 to the Financial Statements. The predecessor auditor used 5% of a three-year average of pre-tax profit adjusted for exceptional items and certain re-measurements.
Rationale for the benchmark applied	Pre-tax profit adjusted for exceptional items and certain re-measurements was considered to be the most relevant benchmark as it is of most interest to stakeholders. Furthermore exceptional items and certain re-measurements are volatile and materially impact the Group's performance each year due to events and transactions that are not part of the underlying activities of the Group and excluding them enables a more consistent basis with which to consider the Group's performance on an ongoing basis.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5 million (2016: £5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

The Group is organised by its different operating segments as outlined in note 4. These operating segments represent the different businesses in the Group and are how management monitor performance. We used the Group's operating segments as the basis for our audit scope.

Our audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Having performed this assessment it was concluded that the following components were considered to be the most significant and were subject to full scope audits:

- UK Home;
- UK Business;
- North America Home;
- North America Business;
- Energy Marketing & Trading; and
- Exploration & Production.

To enhance our understanding of the Group's operating segments, processes and balances in our first year as auditor, we also decided to perform full scope audits for all non-significant segments, being:

- Ireland;
- Connected Home;
- Distributed Energy & Power;
- Central Power Generation; and
- Centrica Storage.

This has resulted in coverage of 98% of Group revenue, 91% of Group profit before tax and 89% of Group net assets.

The materiality levels of the components ranged from £15 million to £40 million depending on the contribution of the component's operations to the Group and our assessment of risk relevant specific to each location. Given our judgement to perform full scope audits in the non-significant segments noted above, we determined that a component materiality of £15 million for these businesses was appropriate, which reflected the lower risk profile of these segments.

All components except for North America Home, North America Business and Ireland are audited from the United Kingdom and hence we oversee these component audits through regular meetings and direct supervision. For the overseas components, each was visited several times during both transition and throughout the year by the lead audit partner and other senior members of the engagement team. All teams were involved in our transition workshops and other transition activities, all of which was overseen and directed by the Group audit team. Throughout the year, the Group audit team has been directly involved in overseeing the component audit planning and execution, through frequent conversations, team briefings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our component audit teams, attended audit closing meetings and reviewed their audit working papers. We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been extensive and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group Financial Statements as a whole.

Independent Auditor's Report (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed at the Annual General Meeting on 5 May 2017 to audit the Financial Statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement of the firm is therefore one year.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

James Leigh FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

21 February 2018

Group Income Statement

Year ended 31 December	Notes	2017			2016		
		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
Group revenue	4(b)	28,023	–	28,023	27,102	–	27,102
Cost of sales before exceptional items and certain re-measurements	5	(23,981)	–	(23,981)	(22,711)	–	(22,711)
Re-measurement of certain energy contracts	7	–	153	153	–	1,058	1,058
Cost of sales	5	(23,981)	153	(23,828)	(22,711)	1,058	(21,653)
Gross profit		4,042	153	4,195	4,391	1,058	5,449
Operating costs before exceptional items	5	(2,848)	–	(2,848)	(3,054)	–	(3,054)
Exceptional items – net impairment of retained assets	7	–	(678)	(678)	–	(71)	(71)
Exceptional items – net (loss)/gain on disposal ⁽ⁱ⁾	7	–	(62)	(62)	–	157	157
Exceptional items – restructuring and business change costs	7	–	(144)	(144)	–	(228)	(228)
Exceptional items – other	7	–	–	–	–	131	131
Operating costs	5	(2,848)	(884)	(3,732)	(3,054)	(11)	(3,065)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	6, 7	51	(28)	23	130	(28)	102
Group operating profit/(loss)	4(c)	1,245	(759)	486	1,467	1,019	2,486
Financing costs	8	(364)	–	(364)	(337)	–	(337)
Investment income	8	20	–	20	37	–	37
Net finance cost		(344)	–	(344)	(300)	–	(300)
Profit/(loss) before taxation		901	(759)	142	1,167	1,019	2,186
Taxation on profit/(loss)	7, 9	(191)	352	161	(282)	(242)	(524)
Profit/(loss) for the year		710	(407)	303	885	777	1,662
Attributable to:							
Owners of the parent		698	(365)	333	895	777	1,672
Non-controlling interests		12	(42)	(30)	(10)	–	(10)
Earnings per ordinary share				Pence			Pence
Basic	10			6.0			31.4
Diluted	10			6.0			31.2
Interim dividend paid per ordinary share	11			3.60			3.60
Final dividend proposed per ordinary share	11			8.40			8.40

(i) Gains and losses on disposal include any impairments and write-backs associated with the assets disposed of upon classification as held for sale.

The notes on pages 115 to 189 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	2017 £m	2016 (restated) (i) £m
Profit for the year		303	1,662
Other comprehensive income/(loss):			
Items that will be or have been reclassified to the Group Income Statement:			
Gains on revaluation of available-for-sale securities, net of taxation	S4	5	8
Transfer of available-for-sale reserve gains to Group Income Statement	S4	–	(5)
Net gains on cash flow hedges	S4	24	161
Transferred to income and expense on cash flow hedges (ii)	S4	(34)	(129)
Transferred to assets and liabilities on cash flow hedges	S4	(7)	(4)
Cash flow hedging reserve recycled to Group Income Statement on disposal	S4	10	5
Taxation on cash flow hedges	S4	1	(3)
		(6)	30
Exchange differences on translation of foreign operations (iii)	S4	(128)	549
Exchange gains/(losses) on translation of actuarial reserve	S4	1	(7)
Exchange differences recycled to Group Income Statement on disposal	S4	8	–
Share of other comprehensive loss of joint ventures and associates, net of taxation	S4	–	(9)
		(120)	566
Items that will not be reclassified to the Group Income Statement:			
Net actuarial gains/(losses) on defined benefit pension schemes	S4	222	(1,174)
Taxation on net actuarial gains/(losses) on defined benefit pension schemes	S4	(38)	194
		184	(980)
Share of other comprehensive income of joint ventures and associates, net of taxation	S4	43	65
Other comprehensive income/(loss), net of taxation		107	(349)
Total comprehensive income for the year		410	1,313
Attributable to:			
Owners of the parent		437	1,287
Non-controlling interests	S10	(27)	26

(i) Prior year comparatives have been re-presented to show exchange differences on translation of actuarial reserve as an item that will be reclassified to the Group Income Statement, and cash flow hedging reserve recycled to Group Income Statement on disposal separately from share of other comprehensive loss of joint ventures and associates.

(ii) Cash flow hedging gains have been transferred to the following lines of the Group Income Statement: financing costs of £29 million (2016: £124 million), operating costs before exceptional items £5 million (2016: nil) and cost of sales before exceptional items and certain re-measurements nil (2016: £5 million).

(iii) Includes £3 million gain (2016: £36 million gain) of exchange differences on translation of foreign operations attributable to non-controlling interests.

The notes on pages 115 to 189 form part of these Financial Statements.

Group Statement of Changes in Equity

	Share capital (note 25) £m	Share premium £m	Retained earnings £m	Other equity (note S4) £m	Total £m	Non-controlling interests (note S10) £m	Total equity £m
1 January 2016	317	1,135	482	(756)	1,178	164	1,342
Profit/(loss) for the year	–	–	1,672	–	1,672	(10)	1,662
Other comprehensive (loss)/income	–	–	–	(385)	(385)	36	(349)
Employee share schemes	–	–	1	32	33	–	33
Scrip dividend	4	121	–	–	125	–	125
Dividends paid to equity holders (note 11)	–	–	(651)	–	(651)	–	(651)
Distributions to non-controlling interests	–	–	–	–	–	(12)	(12)
Issue of share capital	21	673	–	–	694	–	694
31 December 2016	342	1,929	1,504	(1,109)	2,666	178	2,844
Profit/(loss) for the year	–	–	333	–	333	(30)	303
Other comprehensive income	–	–	–	104	104	3	107
Employee share schemes	–	–	4	31	35	–	35
Scrip dividend	6	192	–	–	198	–	198
Dividends paid to equity holders (note 11)	–	–	(661)	–	(661)	–	(661)
Distributions to non-controlling interests	–	–	–	–	–	(3)	(3)
Acquisition of business (note 12)	–	–	–	24	24	721	745
Disposal of business (note 12)	–	–	–	–	–	(152)	(152)
Investment by non-controlling interests	–	–	–	–	–	12	12
31 December 2017	348	2,121	1,180	(950)	2,699	729	3,428

The notes on pages 115 to 189 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2017 £m	31 December 2016 £m
Non-current assets			
Property, plant and equipment	13	4,132	5,298
Interests in joint ventures and associates	14	1,699	1,697
Other intangible assets	15	1,676	1,769
Goodwill	15	2,650	2,614
Deferred tax assets	16	568	356
Trade and other receivables	17	87	66
Derivative financial instruments	19	463	582
Securities	24	231	219
		11,506	12,601
Current assets			
Trade and other receivables	17	4,668	5,102
Inventories	18	409	372
Derivative financial instruments	19	927	1,291
Current tax assets		289	241
Securities	24	5	13
Cash and cash equivalents	24	2,864	2,036
		9,162	9,055
Assets of disposal groups classified as held for sale	12(c)	–	238
		9,162	9,293
Total assets		20,668	21,894
Current liabilities			
Derivative financial instruments	19	(733)	(1,100)
Trade and other payables	20	(5,412)	(5,525)
Current tax liabilities		(336)	(355)
Provisions for other liabilities and charges	21	(264)	(457)
Bank overdrafts, loans and other borrowings	24	(707)	(398)
		(7,452)	(7,835)
Liabilities of disposal groups classified as held for sale	12(c)	–	(42)
		(7,452)	(7,877)
Non-current liabilities			
Deferred tax liabilities	16	(173)	(245)
Derivative financial instruments	19	(287)	(493)
Trade and other payables	20	(167)	(69)
Provisions for other liabilities and charges	21	(2,684)	(3,099)
Retirement benefit obligations	22(d)	(886)	(1,137)
Bank loans and other borrowings	24	(5,591)	(6,130)
		(9,788)	(11,173)
Total liabilities		(17,240)	(19,050)
Net assets			
Share capital	25	348	342
Share premium		2,121	1,929
Retained earnings		1,180	1,504
Other equity	S4	(950)	(1,109)
Total shareholders' equity		2,699	2,666
Non-controlling interests	S10	729	178
Total shareholders' equity and non-controlling interests		3,428	2,844

The Financial Statements on pages 110 to 189, of which the notes on pages 115 to 189 form part, were approved and authorised for issue by the Board of Directors on 21 February 2018 and were signed below on its behalf by:

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Cash Flow Statement

Year ended 31 December	Notes	2017 £m	2016 £m
Group operating profit including share of results of joint ventures and associates		486	2,486
Less share of profits of joint ventures and associates, net of interest and taxation	6	(23)	(102)
Group operating profit before share of results of joint ventures and associates		463	2,384
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		1,794	1,068
Profit on disposals		(41)	(126)
Decrease in provisions		(227)	(32)
Defined benefit pension service cost and contributions		(104)	(179)
Employee share scheme costs		47	46
Unrealised gains arising from re-measurement of energy contracts		(45)	(737)
Operating cash flows before movements in working capital		1,887	2,424
(Increase)/decrease in inventories		(56)	90
Decrease in trade and other receivables		258	221
Increase in trade and other payables		29	140
Operating cash flows before payments relating to taxes and exceptional charges		2,118	2,875
Taxes paid	9(d)	(102)	(206)
Payments relating to exceptional charges		(176)	(273)
Net cash flow from operating activities		1,840	2,396
Purchase of businesses, net of cash acquired		17	(335)
Sale of businesses		593	35
Purchase of property, plant and equipment and intangible assets	4(e)	(882)	(829)
Sale of property, plant and equipment and intangible assets		14	13
Investments in joint ventures and associates		(6)	(17)
Dividends received from joint ventures and associates	14(a)	58	117
Disposal of interests in joint ventures and associates		218	94
Interest received		22	91
(Purchase)/sale of securities	24(c)	(2)	28
Net cash flow from investing activities		32	(803)
Issue of ordinary share capital		-	694
Payments for own shares	S4	(11)	(17)
Distribution to non-controlling interests		(7)	(10)
Financing interest paid		(318)	(204)
Repayment of borrowings and finance leases	24(c)	(271)	(477)
Equity dividends paid		(463)	(532)
Net cash flow from financing activities		(1,070)	(546)
Net increase in cash and cash equivalents		802	1,047
Cash and cash equivalents including overdrafts at 1 January		1,960	860
Effect of foreign exchange rate changes		(25)	53
Cash and cash equivalents including overdrafts at 31 December		2,737	1,960
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	24(c)	2,864	2,036
Overdrafts included within current bank overdrafts, loans and other borrowings	24(c)	(127)	(76)

The notes on pages 115 to 189 form part of these Financial Statements.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

The notes to these Financial Statements focus on areas that are key to understanding our business. Additional information that we are required to disclose by accounting standards or regulation is disclosed in the Supplementary Information (notes S1 to S10).

In addition, for clarity, each note begins with a simple introduction outlining its purpose.

1. 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 2017 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). Unless otherwise stated, these policies have been consistently applied to the years presented.

(a) Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated Financial Statements have been prepared on the historical cost basis except for: derivative financial instruments, available-for-sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition, and the assets of the Group's defined benefit pension schemes that have been measured at fair value; the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying values of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(b) Standards, amendments and interpretations effective or adopted in 2017

From 1 January 2017, the following standards and amendments are effective in the consolidated Financial Statements. Their first time adoption did not have a material impact on the consolidated Financial Statements.

- Amendments to IAS 7: 'Statement of cash flows' related to the disclosure initiative; and
- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

Annual Improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 12: 'Disclosure of interests in other entities' was endorsed by the EU in February 2018. As the Group did not have any assets and liabilities of disposal groups classified as held

for sale as at 31 December 2017 this would not have affected the consolidated Financial Statements.

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

Endorsed by the EU

The Group has not applied the following standards and amendments in the consolidated Group Financial Statements as they are not yet effective, although they have been endorsed by the EU and will be effective from 1 January 2018, unless otherwise indicated:

- IFRS 9: 'Financial instruments';
- IFRS 15: 'Revenue from contracts with customers';
- Amendments to IFRS 15: 'Effective date of IFRS 15';
- Clarifications to IFRS 15: 'Revenue from contracts with customers';
- IFRS 16: 'Leases', effective from 1 January 2019; and
- Annual Improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 1: 'First-time adoption of International Financial Reporting Standards' and IAS 28: 'Investments in associates and joint ventures'.

Management has established and progressed separate projects to oversee the implementation of IFRS 9 and IFRS 15 and further details are provided below.

IFRS 9

The Group will apply IFRS 9 from 1 January 2018. The implementation of IFRS 9 has been split into three parts, representing the areas of change from the new financial instrument standard. The Group's assessment of the potential impact is at the date of initial application of IFRS 9 (1 January 2018). The full impact of adopting IFRS 9 on the Group's consolidated Financial Statements will depend on the financial instruments the Group has during 2018, as well as on the economic conditions and judgements made as at the 2018 year end.

Classification and measurement

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured, namely, the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 identifies three categories of financial assets: amortised cost; fair value through other comprehensive income (FVOCI) and; fair value through profit or loss (FVTPL). The Group's business units have reviewed their financial instruments under the revised IFRS 9 classification and measurement rules. The classification of debt financial instruments, predominantly held by Treasury, that are currently classified as available-for-sale and measured at FVOCI will be FVTPL under IFRS 9. The value of these items can be seen in note S6(a). The change in fair value that was recorded in Other Comprehensive Income in 2017 in respect of these instruments was £4 million and therefore the impact of this change on the Income Statement is not expected to be material. The Group's remaining available-for-sale assets are equity instruments and on adoption of IFRS 9 the Group intends to elect to measure these at FVOCI. The Group's other financial instruments (both financial assets and financial liabilities) are not expected to result in material adjustments on classification and measurement under IFRS 9.

Impairment

IFRS 9 operates an expected credit loss model rather than an incurred credit loss model. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amounts of expected credit losses should be updated at each reporting date. The new impairment model will apply to the

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

Group's financial assets that are debt instruments measured at amortised cost or FVOCI.

No material changes to the impairment provisions recorded currently are expected on transition to IFRS 9. The majority of trade receivables reside in the Group's energy supply and services business and these businesses already operate a sophisticated provision matrix approach based on historic data to establish impairment provisions. Adjustments to encompass forward-looking estimates into this approach are not expected to be material. The impairment of financial assets, subject to the IFRS 9 impairment rules, in the other parts of the business are also not expected to change materially.

Hedge accounting

The Group has elected to continue to apply the hedge accounting requirements of IAS 39: 'Financial instruments: recognition and measurement' instead of the requirements of IFRS 9 as permitted by IFRS 9. Hence there will be no changes to the current hedge accounting relationships.

The Group intends to apply the limited exemption in IFRS 9 relating to transition for classification and measurement and impairment and not restate its comparatives and instead adjust opening equity, where applicable, on 1 January 2018 for the impact of adopting IFRS 9, with this adjustment currently being finalised.

IFRS 15

An extensive review of the Group's contractual arrangements that comprise the Group's current revenue streams has been performed. The conclusion of these reviews is that the adoption of IFRS 15, which is effective from 1 January 2018, will not have a material impact on the recognition of revenue compared to current accounting standards. This is for the following reasons:

- a significant amount of the Group's revenue is outside the scope of IFRS 15. For example, a portion of our UK Home services revenue is from fixed fee service contracts, which are currently within the scope of IFRS 4: 'Insurance contracts' and the sale of much of the Group's asset production (for example, the majority of our Exploration & Production gas production, Central Power Generation gas fired power station production and sales of power received from the Group's associate investment in Nuclear) is sold in the market via the Group's Energy Marketing & Trading segment through contracts that are in the scope of IFRS 9;
- for the majority of energy supply contracts, because there are no minimum quantities whereby the Group delivers the amount of energy required by customers on demand, it has been concluded that there is only an enforceable right to bill for consumption once the customer consumes energy. Revenue recognition for these energy supply contracts (which is a significant portion of the Group's revenue) will therefore not differ from our current revenue recognition policies; and
- currently the bundling of products and services is not significant for the Group. However, expanding the sale of bundled products and services is a key focus for the Group and could therefore have a more significant impact on the Group's revenue recognition in the future. The accounting implications and system requirements will be addressed as propositions are developed in the Group's customer facing businesses.

There have been some differences identified in less significant revenue streams, notably the gross up of revenue and cost of sales for demand side response revenue in Distributed Energy & Power in North America where it has been concluded that the business is acting as principal under IFRS 15. Additionally, North America Home will defer the recognition of some of its revenue in its franchise business and capitalise additional costs to obtain

contracts on adoption of IFRS 15. However, the impact of all of these adjustments on opening equity and the Group's revenue in 2017 is not material. The full impact of adopting IFRS 15 on the Group's consolidated Financial Statements for 2018 will also depend on the contractual arrangements entered into by the Group during 2018.

The Group intends to apply this standard fully retrospectively and therefore the 2017 comparatives will be restated in the 2018 consolidated Financial Statements, with these adjustments currently being finalised.

Other standards and amendments

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's consolidated Financial Statements as all leases will be recognised on the balance sheet (with the exception of short-term and low value leases). A steering committee has met several times during the year to discuss the approach to the implementation of the standard. During the year, an impact analysis on the Group's results has been performed using a sample of representative leases to enable the impact of the different transition options to be understood. The feasibility of adopting a full retrospective transition approach is being investigated whilst the data capture solution is developed in early 2018. The implementation and data capture work will continue into 2018 and an appropriate systems solution will be selected. Due to the number of leases held by the Group it has not been practicable to quantify the full effect it will have on the Group's consolidated Financial Statements, although the operating lease commitment data in note 23(a) gives an indication of the scale of lease commitments that would be recognised on the balance sheet on transition.

Management does not currently expect the future application of the Annual Improvements to IFRS Standards 2014-2016 Cycle to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

Not endorsed by the EU

The Group has not applied the following standards and amendments in the consolidated Group Financial Statements as they are not yet effective and they have not been endorsed by the EU:

- IFRS 17: 'Insurance contracts', effective from 1 January 2021;
- IFRIC Interpretation 22: 'Foreign currency transactions and advance consideration', effective from 1 January 2018;
- IFRIC Interpretation 23: 'Uncertainty over income tax treatments', effective from 1 January 2019;
- Amendments to IFRS 2: 'Classification and measurement of share-based payment transactions', effective from 1 January 2018;
- Amendments to IFRS 9: 'Prepayment features with negative compensation', effective from 1 January 2019;
- Amendments to IAS 19: 'Plan amendment, curtailment or settlement' effective from 1 January 2019;
- Amendments to IAS 28: 'Long-term interests in associates and joint ventures', effective from 1 January 2019;
- Amendments to IAS 40: 'Transfers of investment property', effective from 1 January 2018; and
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3: 'Business combinations', IFRS 11: 'Joint arrangements', IAS 12: 'Income taxes' and IAS 23: 'Borrowing costs', effective from 1 January 2019.

IFRS 17: 'Insurance contracts' was issued in May 2017. This new standard will not be effective before 1 January 2021, assuming it is endorsed by the EU. The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. Under IFRS 17, subject to certain conditions,

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

there is an accounting policy choice to account for these contracts under IFRS 17 or IFRS 15. As this could change the accounting for these contracts, this will be considered during the implementation of IFRS 17.

Management does not currently expect the future application of the IFRIC interpretations and amendments to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

The amendments to IAS 19 apply to plan amendments, curtailments or settlements that occur on or after 1 January 2019, and the amendments to IFRS 3 and IFRS 11 apply to acquisitions of additional interests in joint arrangements for which the acquisition date is on or after 1 January 2019. As these types of transactions can vary in size and are non-recurring in nature, the Group cannot quantify the effect that these amendments could potentially have in the future.

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 profit, adjusted earnings per share and adjusted operating cash flow provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items; and
- certain re-measurements;

but including:

- the Group's share of results from joint ventures and associates before interest and taxation.

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 note 2(b) for further details. The Group's share of results from joint ventures and associates is presented before interest and taxation because this gives a consistent measurement of results compared to wholly owned subsidiaries.

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Note 4 also contains an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory results for the year. Adjusted operating profit after taxation is defined as adjusted operating profit, net of associated taxation, before:

- the impact of changes to UK and US corporation tax rates; and
- certain Corporate and other taxation.

Given the significant variance in tax rates for different jurisdictions and different businesses within the Group, this measure provides management with an analysis of each segment's contribution to overall earnings. The impact of changes to UK and US corporation

tax rates is excluded because it predominantly relates to future tax impacts rather than the current year performance. The measure excludes interest and related tax impacts because this measure provides an analysis of the segment's operating performance and its contribution to earnings before the impact of the financing of the segment.

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.

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is defined as net cash flow from operating activities before:

- payments relating to exceptional items;
- deficit reduction payments made to the UK defined benefit pension schemes; and
- movements in variation margin and cash collateral that are included in net debt;

but including:

- dividends received from joint ventures and associates.

Payments related to exceptional items are excluded because the Directors do not consider these to represent underlying business performance. Deficit reduction payments and movements in variation margin and cash collateral are excluded because the Directors do not consider these to represent the operating cash flows generated by underlying business performance, as they are predominantly triggered by wider market factors and, in the case of variation margin and cash collateral, these represent timing differences. Dividends received from joint ventures and associates are considered by the Directors to represent operating cash flows generated by the Group's operations that are structured in this manner.

(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 similar capacity or off-take contracts), 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 IAS 39: 'Financial instruments: recognition and measurement' 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. 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.

Notes to the Financial Statements (continued)

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

The arrangements discussed above and reflected as certain re-measurements are all 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 the business performance column of the Group Income Statement, in the results before certain re-measurements.

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, significant onerous contract charges/releases, asset impairments/write-backs, certain pension past service credits, the tax effects of these items and the effect of changes in UK upstream tax rates.

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

Such key judgements include the following:

- the presentation of selected items as exceptional (see notes 2 and 7);
- the use of adjusted profit, adjusted earnings per share and adjusted operating cash flow measures (see notes 2, 4 and 10); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements (see notes 2, 7 and 19).

In addition, 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.

Wind farm disposals

In prior years, the profits and losses arising on disposals of equity interests in wind farms were recognised within the business performance column of the Group Income Statement as part of the Central Power Generation segment. These divestments were in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects developed, which involved bringing in partners at an appropriate stage or full disposal.

In July 2015, the Group announced its intention to exit its 245MW portfolio of wind assets. During 2016, the Group disposed of its investment in GLID Wind Farms TopCo Limited (GLID), which owned Glens of Foudland, Lynn and Inner Dowsing wind farms, as part of this strategy. The post-tax profit on disposal of £73 million was classified as an exceptional item in the Group Income Statement because the Directors judged the exit from the wind business to be non-recurring in nature and distinct from the Group's established wind farm strategy.

The Group completed its exit from wind generation ownership with the disposal of Lincs Wind Farm Limited, announced on 13 January 2017 and completed on 17 February 2017. This was treated in a similar manner as GLID in the Group Income Statement, generating an exceptional post-tax profit on disposal of £58 million (see note 12).

Leases – third-party power station tolling arrangements

The Group's Spalding long-term power station tolling contract in the UK was considered a lease during 2017.

The arrangement provided Centrica with the right to nominate 100% of the plant capacity for the duration of the contract in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. Management has determined that the arrangement should be accounted for as a finance lease, as the lease term was judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement amounted to substantially all of the fair value of the power station at that time.

In May 2016 and December 2017, a number of revisions to this tolling arrangement were agreed; however this has not changed the accounting assessment of the contract as a finance lease.

Details of the interest charges, finance lease asset and finance lease payable are included in notes 8, 13 and 24 respectively.

Business combinations and asset acquisitions

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

Business combinations and acquisitions of associates and joint ventures require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill.

As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

During the year the Group acquired: Bayerngas Norge AS's exploration and production business; REstore NV, Europe's leading demand response aggregator; and the assets of Rokitt Inc. These acquisitions have been accounted for as business combinations as set out in note 12(a).

Spirit Energy consolidation and preference shares

During the year, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing Exploration & Production business within the newly formed Spirit Energy business (SE). The Group's interest in SE is 69%. The Group can appoint four directors and the non-controlling interest SWM Bayerische E&P Beteiligungsgesellschaft mbH can appoint two directors with the CEO being an independent director. The Group, through this board majority, can control decisions that represent Board Reserved Matters, which include the approval or amendment of the Business Plan or the Budget. The Directors consider that the right to approve or amend the Business Plan or Budget provides control over the relevant activities that most significantly influence the variable returns of the SE business. The Group, through its board majority, has power over this decision. Whilst SE has been established as an independent business, this is judged not to prevent the Group concluding that it controls SE. Additionally, Fundamental Reserved Matters, which require unanimous consent, are judged to represent minority protection rather than decision making rights associated with the relevant activities. Consequently SE is fully consolidated with a non-controlling interest of 31%.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Spirit Energy Limited (the parent company of SE) has issued preference shares to the Group and SWM Gasbeteiligungs GmbH & Co. KG. The Directors have reviewed the redemption and conversion rights of the shares and have concluded that in each case the redemption is at the discretion of the issuer, Spirit Energy Limited. Whilst the agreements provide incentives for the Group to redeem these shares through the waiver of its dividend under certain circumstances, and the agreements indicate an intention to redeem, the Group has concluded that Spirit Energy Limited retains the discretion to avoid redemption and therefore the preference shares do not represent an obligation. Similarly, the conversion rights are at the discretion of Spirit Energy Limited and do not create an obligation. The preference shares pay a fixed coupon or dividend of 5.5% plus a floating element subject to a cap of 1.5%, and again despite the agreement stating a dividend policy and the intention to pay dividends, these remain at the discretion of the directors of Spirit Energy Limited. Accordingly, the preference shares are deemed to represent equity rather than a financial liability and therefore the 31% held by SWM Gasbeteiligungs GmbH & Co. KG forms part of the Group's non-controlling interest balance.

Consolidation of the CQ Energy Canada Partnership

The Suncor upstream acquisition in 2013 involved the formation of the CQ Energy Canada Partnership (CQECP) to acquire Suncor Energy's North American gas and oil assets. CQECP was owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provided the Group with the ability to control the business plan and budgets and consequently the general operation of the assets. Accordingly, this arrangement had been assessed under IFRS 10: 'Consolidated financial statements' and the conclusion had been reached that the Group had power over the relevant activities of CQECP. This entity was fully consolidated into the Group's Financial Statements and QPI's ownership share was represented as a non-controlling interest up to its disposal on 29 September 2017. See note 12(d).

Energy Company Obligation

The Energy Company Obligation (ECO) order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases. ECO phase 1 and ECO phase 2 had delivery dates of 31 March 2015 and 31 March 2017, respectively. ECO phase 2 (now ECO phase 2t) has been extended to 30 September 2018. The Group continues to judge that it is not legally obligated by this order until 30 September 2018 for ECO phase 2t. Accordingly, the costs of delivery are recognised as incurred, when cash was spent or unilateral commitments made, resulting in obligations that could not be avoided.

Metering contracts

The Department for Business, Energy & Industrial Strategy has modified UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2020. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and, therefore, only recognises a provision for penalty charges at this point.

In 2015, as part of the smart meter roll-out, the Group renewed meter rental arrangements with third-parties. The Group assessed that these were not leases because it did not have the right to physically or operationally control the smart meters and other parties also took a significant amount of the output from the assets.

(b) Key sources of estimation uncertainty

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.

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. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. 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. Unbilled revenue recognised on the balance sheet within trade and other receivables at 31 December 2017 was £1,585 million (2016: £1,715 million).

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance that will be achieved either through subsequent customer billing or through developing industry settlement procedures. The adjustments for imbalance at 31 December 2017 are not significant. However, changes resulting from these management estimates can be material with adjustments of between £50 million and £60 million having been made in the last few years.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of gas and oil fields (including storage facility assets) 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 incurred until 2040. See note 21 for further details including the impact of the triennial review of the Group's Exploration & Production assets.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. In 2016 the real discount rate used to discount the Group's European Exploration & Production decommissioning liabilities was reduced

Notes to the Financial Statements (continued)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

by 1%, which resulted in an increase in the provision of £229 million. The real discount rate used to discount the decommissioning liabilities at 31 December 2017 is unchanged at 1.2%.

Significant judgements and estimates are also made about the costs of decommissioning nuclear power stations and the costs of waste management and spent fuel. These estimates could impact the carrying value of our Nuclear investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note S2.

Gas and liquids reserves

The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids property, plant and equipment (PP&E) as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 201.

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.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6 and of the sensitivities to these assumptions in note S3.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 7. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream Exploration & Production gas and oil assets, power generation assets, storage facility assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill, as detailed below.

Exploration & Production gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs.

Further details of the assumptions used in determining the recoverable amounts, the impairments and the impairment reversals booked during the year and sensitivity to the assumptions are provided in note 7.

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. Further details of the impairment reversals booked during the year are provided in note 7.

Storage facility assets

The recoverable amount of the Group's operational storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on forecasts of the value from extracting cushion gas at the end of the life of the storage facility less any related capital and operating expenditure following the Group's application to permanently end Rough's status as a storage facility and the Group's application for a production consent to produce gas from the reservoir, which was granted on 15 January 2018, to take effect from 17 January 2018. Further details of the impairments booked during the year and sensitivity to the assumptions are provided in note 7.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. Further details of the methodology and sensitivity to the assumptions are provided in note 7.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further details on the goodwill balances and the assumptions used in determining the recoverable amounts are provided in notes 7, 15(b) and S2. Sensitivity to the assumptions is also found in note 7 for goodwill allocated to Exploration & Production CGUs.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provision is set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post-employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. Further details, including sensitivities to these assumptions, are provided in note 22.

4. SEGMENTAL ANALYSIS

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review (pages 40 to 47).

(a) Segmental structure

The types of products and services from which each reportable segment derived its revenues during the year are detailed below:

Segment	Description
Centrica Consumer	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
North America Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) the installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment and water heaters and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Connected Home	The supply of new technologies and energy efficiency solutions to residential customers in all geographies in which the Group operates.
Centrica Business	
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
North America Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Energy Marketing & Trading	Trading and optimisation of energy.
Central Power Generation	Generation of power from combined cycle gas turbines (CCGT) and nuclear assets in the UK.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK and Europe and North America.
Centrica Storage	Gas storage in the UK, including production of cushion gas.

Notes to the Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(b) Revenue

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

Year ended 31 December	2017			2016		
	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Centrica Consumer						
UK Home	8,536	(5)	8,531	9,252	(8)	9,244
Ireland	827	–	827	781	–	781
North America Home	2,722	–	2,722	2,702	–	2,702
Connected Home	42	(14)	28	33	(8)	25
	12,127	(19)	12,108	12,768	(16)	12,752
Centrica Business						
UK Business	1,830	(2)	1,828	2,031	(1)	2,030
North America Business	8,158	–	8,158	7,664	–	7,664
Distributed Energy & Power	171	(4)	167	161	(2)	159
Energy Marketing & Trading	4,766	(234)	4,532	3,282	(88)	3,194
Central Power Generation	622	(196)	426	667	(209)	458
	15,547	(436)	15,111	13,805	(300)	13,505
Exploration & Production	1,600	(929)	671	1,642	(871)	771
Centrica Storage	148	(15)	133	93	(19)	74
	29,422	(1,399)	28,023	28,308	(1,206)	27,102

The Group does not monitor and manage performance by geographic territory, but we provide below an analysis of revenue and certain non-current assets by geography.

Year ended 31 December	Revenue (based on location of customer)		Non-current assets (based on location of assets) (i)	
	2017 £m	2016 £m	2017 £m	2016 £m
UK	13,506	14,459	5,849	6,454
Republic of Ireland	769	719	102	95
Germany	608	345	–	–
Norway	359	370	1,758	1,299
Rest of Europe	1,565	537	445	205
United States of America	9,579	9,270	1,653	1,869
Canada	1,411	1,232	378	1,428
Rest of the world	226	170	5	53
	28,023	27,102	10,190	11,403

(i) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial prepayments and other receivables.

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

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 results of equity-accounted interests before interest and taxation. This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Year ended 31 December	Adjusted operating profit/(loss)		Adjusted operating profit/(loss)	
	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer				
UK Home	819	810	674	672
Ireland ⁽ⁱ⁾	47	46	37	41
North America Home	119	93	74	61
Connected Home	(95)	(50)	(71)	(40)
	890	899	714	734
Centrica Business				
UK Business ⁽ⁱ⁾	4	50	5	42
North America Business	71	221	44	145
Distributed Energy & Power	(53)	(26)	(41)	(20)
Energy Marketing & Trading	104	161	87	124
Central Power Generation ⁽ⁱ⁾	35	75	47	66
	161	481	142	357
Exploration & Production	184	187	37	50
Centrica Storage ⁽ⁱⁱ⁾	17	(52)	1	(53)
Adjusted operating profit	1,252	1,515	894	1,088
Share of joint ventures'/associates' interest and taxation	(7)	(48)		
Operating profit before exceptional items and certain re-measurements	1,245	1,467		
Exceptional items (note 7)	(884)	(11)		
Certain re-measurements included within gross profit (note 7)	153	1,058		
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	(28)	(28)		
Operating profit after exceptional items and certain re-measurements	486	2,486		

Year ended 31 December	2017 £m	2016 £m
Adjusted operating profit after taxation ⁽ⁱⁱⁱ⁾	894	1,088
Impact of changes to corporate tax rates (note 9) ^(iv)	34	30
Corporate and other taxation, and interest (net of taxation) ^(v)	(218)	(233)
Business performance profit for the year	710	885
Exceptional items and certain re-measurements (net of taxation) (note 7)	(407)	777
Statutory profit for the year	303	1,662

(i) In 2017 the effective tax rates of certain segments, including Ireland, UK Business and Central Power Generation, are impacted by prior year adjustments. In both 2017 and 2016 the Central Power Generation segment effective tax rate was also impacted by non-taxable income in the segment's associate's profits.

(ii) In 2017, the effective tax rate in the Centrica Storage segment is higher (2016: lower) than the standard UK Corporation tax rate of 19.25% due principally to the mix of profits and losses across upstream and downstream activities, to which different tax rates apply (see note 9).

(iii) Segment adjusted operating profit after taxation includes profit of £7 million (2016: loss of £5 million) attributable to non-controlling interests.

(iv) The 2017 amount relates to a change to the US tax rate; the 2016 amount related to changes to UK tax rates. The amounts include nil (2016: £9 million) relating to equity-accounted interests.

(v) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

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

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation and impairments of property, plant and equipment		Amortisation, write-downs and impairments of intangibles	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer						
UK Home	-	-	(51)	(51)	(108)	(111)
Ireland	-	-	(3)	(2)	(9)	(9)
North America Home	-	-	(13)	(6)	(50)	(49)
Connected Home	-	-	(1)	-	(11)	(6)
	-	-	(68)	(59)	(178)	(175)
Centrica Business						
UK Business	-	-	(2)	(2)	(12)	(11)
North America Business	-	-	(8)	(2)	(40)	(39)
Distributed Energy & Power	-	-	(8)	(6)	(8)	(9)
Energy Marketing & Trading	-	-	(1)	-	(10)	(11)
Central Power Generation	58	178	(10)	(27)	-	-
	58	178	(29)	(37)	(70)	(70)
Exploration & Production	-	-	(533)	(578)	(14)	(25)
Centrica Storage	-	-	(38)	(36)	-	(1)
Other ⁽ⁱ⁾	-	-	(5)	(27)	(9)	(17)
	58	178	(673)	(737)	(271)	(288)

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

Impairments of property, plant and equipment

During 2017, a £2 million impairment charge was recognised in the Distributed Energy & Power segment. During 2016, impairments and write-backs were recognised as follows: Exploration & Production: £86 million impairment, Central Power Generation: £3 million write-back, Distributed Energy & Power: £1 million impairment. Considering their size and nature, all such current and prior year impairments and write-backs were recognised within business performance.

Write-downs and impairments of intangible assets

During 2017, £9 million of write-downs (2016: £19 million) relating to exploration and evaluation assets were recognised in the Exploration & Production segment. During 2016, a £1 million impairment of application software was recognised in the Ireland segment. All such current and prior year impairments and write-downs were recognised within business performance as they were not deemed exceptional in nature.

4. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

Year ended 31 December	Capital expenditure on property, plant and equipment (note 13)		Capital expenditure on intangible assets other than goodwill (note 15)	
	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer				
UK Home	69	48	398	327
Ireland	2	5	8	6
North America Home	18	6	5	3
Connected Home	4	3	31	21
	93	62	442	357
Centrica Business				
UK Business	1	1	190	164
North America Business	6	6	290	210
Distributed Energy & Power	106	9	9	1
Energy Marketing & Trading	3	7	77	40
Central Power Generation	28	13	–	–
	144	36	566	415
Exploration & Production	391	528	40	11
Centrica Storage	43	33	–	–
Other⁽ⁱ⁾	36	15	36	53
Capital expenditure	707	674	1,084	836
Capitalised borrowing costs	(10)	(61)	–	(1)
Inception of new finance leases and movements in payables and prepayments related to capital expenditure	(87)	8	1	–
Purchases of emissions allowances and renewable obligation certificates	–	–	(813)	(627)
Net cash outflow⁽ⁱⁱ⁾	610	621	272	208

(i) The Other segment relates to corporate assets.

(ii) The cash outflow relating to intangible assets includes £41 million (2016: £11 million) relating to exploration and evaluation of gas and oil assets.

Notes to the Financial Statements (continued)

4. SEGMENTAL ANALYSIS

(f) Adjusted operating cash flow

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is net cash flow from operating activities before payments relating to exceptional items, deficit payments to the UK defined benefit pension schemes, movements in variation margin and cash collateral that are included in net debt, but including dividends from joint ventures and associates. This measure is reconciled to the net cash flow from operating activities.

Year ended 31 December	2017 £m	2016 £m
Centrica Consumer		
UK Home	928	1,053
Ireland	62	84
North America Home	154	146
Connected Home	(121)	(58)
	1,023	1,225
Centrica Business		
UK Business	131	418
North America Business	87	285
Distributed Energy & Power	(30)	(15)
Energy Marketing & Trading	262	198
Central Power Generation	58	(1)
	508	885
Exploration & Production	448	655
Centrica Storage	61	(49)
Other ⁽ⁱ⁾	29	(30)
Adjusted operating cash flow	2,069	2,686
Dividends received from joint ventures and associates	(58)	(117)
UK pension deficit payments	(131)	(77)
Payments relating to exceptional charges	(176)	(273)
Margin and cash collateral included in net debt	136	177
Net cash flow from operating activities	1,840	2,396

(i) The Other segment includes corporate functions.

5. COSTS OF OPERATIONS

This section details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	Cost of sales £m	Operating costs £m	2017 Total costs £m	Cost of sales £m	Operating costs £m	2016 Total costs £m
Transportation, distribution and metering costs	(5,039)	–	(5,039)	(4,990)	–	(4,990)
Commodity costs	(15,651)	–	(15,651)	(14,355)	–	(14,355)
Depreciation, amortisation, impairments and write-downs	(605)	(343)	(948)	(580)	(448)	(1,028)
Employee costs	(708)	(1,271)	(1,979)	(787)	(1,363)	(2,150)
Impairment of trade receivables (note 17) ⁽ⁱ⁾	–	(132)	(132)	–	(182)	(182)
Other direct costs	(1,978)	(1,102)	(3,080)	(1,999)	(1,061)	(3,060)
Total costs before exceptional items and certain re-measurements	(23,981)	(2,848)	(26,829)	(22,711)	(3,054)	(25,765)
Exceptional items and certain re-measurements (note 7)	153	(884)	(731)	1,058	(11)	1,047
Total costs	(23,828)	(3,732)	(27,560)	(21,653)	(3,065)	(24,718)

(i) Impairment of trade receivables in 2017 is net of £5 million received in respect of the sale of debt that had been written off in prior years.

(b) Employee costs ⁽ⁱ⁾

Year ended 31 December	2017 £m	2016 £m
Wages and salaries	(1,591)	(1,792)
Social security costs	(159)	(160)
Pension and other post-employment benefits costs	(201)	(185)
Share scheme costs (note S4)	(47)	(46)
	(1,998)	(2,183)
Capitalised employee costs	19	33
Employee costs recognised in the Group Income Statement	(1,979)	(2,150)

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 78 to 89 form part of these Financial Statements. Details of the remuneration of key management personnel are given in note S8.

(c) Average number of employees during the year

Year ended 31 December	2017 Number	2016 Number
UK Home	22,158	26,459
Ireland	211	325
North America Home	3,122	4,729
Connected Home	363	280
UK Business	2,065	2,257
North America Business	770	1,270
Distributed Energy & Power	947	844
Energy Marketing & Trading	433	289
Central Power Generation	131	256
Exploration & Production	785	1,242
Centrica Storage	269	327
Group Functions ⁽ⁱ⁾	3,647	–
	34,901	38,278

(i) Group Functions was established in 2017 and includes employees performing activities related to central functions such as finance, human resources and legal. These employees were reported in the other segments in 2016.

Notes to the Financial Statements (continued)

6. SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2017 principally arises from its interest in Nuclear - Lake Acquisitions Limited, an associate, reported in the Central Power Generation segment.

Year ended 31 December	2017 £m	2016 £m
Income	538	686
Expenses excluding certain re-measurements	(480)	(508)
Certain re-measurements	(29)	(29)
	29	149
Financing costs	(1)	(32)
Taxation excluding certain re-measurements	(6)	(16)
Taxation on certain re-measurements	1	1
Share of post-taxation results of joint ventures and associates ⁽ⁱ⁾	23	102

(i) The 2016 comparative includes the Group's share of results of the GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited joint ventures. The Group's interest in GLID Wind Farms TopCo Limited was disposed of during 2016. The Group's interest in Lincs Wind Farm Limited was held for sale in 2017 up to the date of disposal on 17 February 2017 and therefore gave rise to no equity accounted comprehensive income during the period. See note 12(d).

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Year ended 31 December	2017 £m	2016 £m
Share of post-taxation results of joint ventures and associates	23	102
Certain re-measurements (net of taxation)	28	28
Financing costs	1	32
Taxation (excluding taxation on certain re-measurements)	6	16
Share of adjusted results of joint ventures and associates	58	178

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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, significant onerous contract charges and releases, and asset write-downs/impairments and write-backs.

(a) Exceptional items

Year ended 31 December	2017 £m	2016 (restated) (i) £m
(Impairment)/write-back of retained Exploration & Production assets ⁽ⁱⁱ⁾	(408)	79
Impairment of UK gas storage assets ⁽ⁱⁱⁱ⁾	(270)	(176)
Write-back of retained Central Power Generation assets	–	26
Net gain on disposal of Central Power Generation businesses and assets ^(iv)	72	73
(Loss)/net gain on disposal of Exploration & Production businesses and material assets ^(v)	(134)	106
Loss on disposal of North America Home businesses and assets	–	(22)
Pension past service credit	–	78
Onerous power procurement contract release	–	53
Restructuring costs ^(vi)	(88)	(228)
Business change costs ^(vii)	(56)	–
Exceptional items included within Group operating profit	(884)	(11)
Net taxation on exceptional items (note 9) ^(viii)	408	9
Effect of change in UK upstream tax rates (note 9)	–	29
Net exceptional items after taxation	(476)	27

- (i) Prior year comparatives have been re-presented so that associated impairments and gains or losses on disposal are presented on a consistent basis with the current year classification.
- (ii) In the Exploration & Production segment, net impairments of assets have been booked relating to the net decreases in value of certain UK, Dutch and Norwegian gas and oil fields (pre-tax impairments £494 million, post-tax £162 million; including a PRT credit of £207 million), predominantly due to a reduction in long-term price forecasts, reserves and changes to expected decommissioning costs following the conclusion of the triennial review. Also included is the reduction of decommissioning provisions (pre-tax £86 million, post-tax £51 million) for assets previously impaired through exceptional items.
- (iii) A pre-tax impairment of £270 million (post-tax £224 million) has been recorded in the current year in respect of the UK Rough gas storage asset, following the June 2017 announcement to apply for a production licence and permanently end Rough's status as a storage facility.
- (iv) On 17 February 2017, the Group disposed of its joint venture investment in Lincs Wind Farm for net proceeds of £214 million, giving rise to a pre-tax gain on disposal of £64 million (post-tax £58 million). On 31 August 2017, the Group disposed of its Langage, South Humber Bank and King's Lynn B power station assets for net proceeds of £314 million, giving a pre and post-tax loss of £7 million. These power station assets were originally classified as held for sale as at 30 June 2017 and a net pre-tax write-back of £15 million (post-tax £12 million) was recognised.
- (v) On 27 May 2017, the Group disposed of its remaining portfolio of gas assets in Trinidad and Tobago for consideration of US\$35 million (£26 million) giving rise to a pre and post-tax loss on disposal of £9 million. On 29 September 2017, the Group disposed of its Canadian exploration and production business for C\$420 million (£255 million) giving rise to a pre and post-tax loss on disposal of £28 million. These Canadian exploration and production assets were classified as held for sale as at 30 June 2017 and a net pre-tax impairment of £97 million (post-tax £81 million) was recorded. Both the Canadian exploration and production business and the Trinidad and Tobago assets were foreign operations and accounted for in non-GBP currencies. Consequently the relevant foreign currency translation reserve (including any net investment hedging) has been recycled to the Group Income Statement.
- (vi) Following the Group's strategic review announced in 2015, the Group has incurred restructuring costs during the year implementing the new organisational model relating principally to redundancy costs, transformational spend and consultancy costs. The post-tax impact was £68 million.
- (vii) Business change costs relate to changing the business operating model in Storage, the Exploration & Production Bayergas Norge acquisition and the closure of the US solar business. The costs principally relate to impairment of assets, redundancy and consultancy costs and various change of control costs associated with the Bayergas Norge transaction. The post-tax impact was £39 million.
- (viii) Included within net taxation is a £21 million credit associated with the leased Spalding CCGT power station, previously impaired through exceptional items.

(b) 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.

Year ended 31 December	2017 £m	2016 £m
Certain re-measurements recognised in relation to energy contracts:		
Net (losses)/gains arising on delivery of contracts	(54)	968
Net gains arising on market price movements and new contracts	207	90
Net re-measurements included within gross profit	153	1,058
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(28)	(28)
Net re-measurements included within Group operating profit	125	1,030
Taxation on certain re-measurements (note 9) ⁽ⁱ⁾	(56)	(280)
Net re-measurements after taxation	69	750

- (i) 2017 includes £37 million charge due to the effect of changes in US tax rates. 2017 also includes a prior year tax credit of £28 million (2016: £1 million charge).

The Group is generally a net buyer of commodity, procuring gas and power for our customers. Following some increases in commodity prices during 2017, net gains arising on market price movements and new contracts of £207 million (2016: £90 million gain) have been recognised.

Notes to the Financial Statements (continued)

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(c) Impairment accounting policy, process and sensitivities

The Group tests the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets – see note S2) for impairment annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Interests in joint ventures and associates and exploration assets are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

The impairment tests for the Exploration & Production gas and oil assets and CGUs (including goodwill), the Group's associate investment in Nuclear and the Storage PP&E asset, have used FVLCD to determine their recoverable amounts. This methodology is deemed to be appropriate for these assets and CGUs as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets. VIU calculations have been used to determine recoverable amounts for all other CGUs that include goodwill and indefinite-lived intangible assets. UK power generation assets have also been valued using the VIU impairment methodology. Further details of the approach and assumptions used in the VIU calculations are provided in note S2.

FVLCD discount rate and cash flow assumptions

The price assumptions used to determine recoverable amounts for FVLCD calculations are based on the liquid market prices for the three year period, 2018 to 2020. The longer-term price assumptions thereafter are derived using valuation techniques based on available external data and with reference to market comparators. The average price for the period 2018 to 2022 was 45p per therm for NBP Gas, US\$65 per barrel for Brent and £43 per MWh for Baseload Power (all in real terms) thereafter nominal prices are broadly inflated. The valuation of the Group's portfolio of assets is more sensitive to NBP Gas and Baseload Power prices than to Brent.

Exploration & Production assets

A net impairment of £408 million (2016: write-back £79 million) has been recorded within exceptional items for retained Exploration & Production assets net of £86 million of reductions to decommissioning provisions. For those assets subject to the net impairment, the associated recoverable amounts (net of decommissioning costs) of £401 million are categorised within Level 3 of the fair value hierarchy. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. 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 (that is outside the active period for each commodity), prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. 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. Post-tax cash flows used in the FVLCD calculation for the first five years are based on the Group's Board-approved business plans and, thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8.5% (2016: 9.0%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Exploration & Production assets and goodwill are particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/-10%. Changes in price generate different production profiles and in some cases the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For Exploration & Production assets, an increase in gas and oil prices of 10% would potentially reverse £148 million (2016: £89 million) of previous post-tax impairment charges of the underlying exploration and production assets. A reduction of 10% would potentially give rise to further post-tax impairments of the underlying legacy exploration and production assets of £140 million (2016: £166 million) but no post-tax impairment of goodwill (2016: nil) due to adequate headroom.

Storage

The recoverable amount of the Group's storage facility (Rough) is calculated on a FVLCD basis by discounting the post-tax cash flows expected to be generated by the asset. In June 2017, the Group announced that the Rough facility could not be safely returned to injection and storage operations and it therefore intended to make all relevant applications to permanently end Rough's status as a storage facility. The Group received production consent on 15 January 2018, effective from 17 January 2018, to produce gas from the reservoir. Since the cash generating unit that comprises the UK gas storage assets will continue to operate, the Storage business does not qualify as a discontinued operation under IFRS 5: 'Non-current assets held for sale and discontinued operations'.

The cash flow estimates in the recoverable amount calculation have been based on the revenue from extracting the cushion gas less any related capital, operating and decommissioning expenditure. The key assumptions in these estimates are forward gas prices, the timing of government consent for production, the amount of gas available and the rate of extraction. Where forward market gas prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7.5% (2016: 7.5%) to determine FVLCD.

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

A pre-tax impairment charge of £270 million (post-tax £224 million) has been recorded within exceptional items in the current period. The valuation of the recoverable amount of the asset is categorised within Level 3 of the fair value hierarchy. The carrying amount after this impairment amounts to a net liability position of £88 million, including the decommissioning provision and deferred tax. The impairment test is particularly sensitive to price assumptions made in the impairment calculation. To illustrate this, the price assumptions for gas and liquids have been varied by +/-10%. An increase of 10% would potentially reverse impairments of £76 million. A decrease of 10% would potentially give rise to a further impairment of £20 million.

Central Power Generation – Nuclear

No impairment charge has been recorded (2016: nil) for the Group's associate investment in Nuclear. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the investment, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of the underlying nuclear power stations, planned and unplanned outage assumptions, operating cost assumptions and forward prices for power and forecast capacity market auction prices. Where forward market prices are not available (that is outside the active period for each commodity), prices are determined based on internal model inputs. Note S6 provides additional detail of the active period of each of the commodity markets in which the Group operates. Post-tax cash flows used in the FVLCD calculations for the first five years are based on the Group's Board-approved business plans and thereafter are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7% (2016: 8%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of the Group's investment in Nuclear, which is categorised within Level 3 of the fair value hierarchy, is particularly sensitive to assumptions/variations in the power price. To illustrate this, sensitivities were performed at the year end to vary the power price assumptions in the Group's internal valuation model by +/-10% and separately to vary the discount rate by +/-1%. An increase in power prices of 10%, assuming all other assumptions remain constant, would result in a reversal of previous impairments of £477 million (2016: £444 million). A reduction of 10% would give rise to an impairment charge of £442 million (2016: £461 million). An increase in the discount rate of 1%, assuming all other assumptions remain constant, would result in an impairment charge of £125 million (2016: £138 million). A decrease in the discount rate of 1% would result in an impairment write-back of £187 million (2016: £145 million).

8. NET FINANCE COST

Financing costs mainly comprise interest on bonds and bank debt, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions and pensions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, and government bonds.

Year ended 31 December	2017			2016		
	Financing costs £m	Investment income £m	Total £m	Financing costs £m	Investment income £m	Total £m
Cost of servicing net debt:						
Interest income	-	19	19	-	35	35
Interest cost on bonds, bank loans and overdrafts ⁽ⁱ⁾	(289)	-	(289)	(305)	-	(305)
Interest cost on finance leases	(14)	-	(14)	(15)	-	(15)
	(303)	19	(284)	(320)	35	(285)
Net gains on revaluation	-	1	1	-	2	2
Notional interest arising from discounting	(71)	-	(71)	(79)	-	(79)
	(374)	20	(354)	(399)	37	(362)
Capitalised borrowing costs ⁽ⁱⁱ⁾	10	-	10	62	-	62
(Cost)/income	(364)	20	(344)	(337)	37	(300)

(i) During 2017 the Group decreased its outstanding bond debt principal by US\$200 million. See note 24(d).

(ii) Borrowing costs have been capitalised using an average rate of 4.55% (2016: 4.53%). Capitalised interest has attracted tax deductions totalling £8 million (2016: £18 million), with deferred tax liabilities being set up for the same amounts.

Notes to the Financial Statements (continued)

9. TAXATION

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

(a) Analysis of tax charge

Year ended 31 December	2017			2016		
	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
Current tax						
UK corporation tax	(50)	(20)	(70)	(103)	134	31
UK petroleum revenue tax	63	–	63	8	–	8
Non-UK tax	(35)	7	(28)	(220)	16	(204)
Adjustments in respect of prior years – UK ⁽ⁱ⁾	29	(31)	(2)	60	53	113
Adjustments in respect of prior years – non-UK	(10)	(2)	(12)	4	–	4
Total current tax	(3)	(46)	(49)	(251)	203	(48)
Deferred tax						
Origination and reversal of temporary differences – UK	(44)	169	125	54	(174)	(120)
UK petroleum revenue tax ⁽ⁱⁱ⁾	(6)	207	201	(12)	–	(12)
Origination and reversal of temporary differences – non-UK	(255)	(23)	(278)	(75)	(262)	(337)
Change in tax rates ⁽ⁱⁱⁱ⁾	34	(37)	(3)	21	45	66
Adjustments in respect of prior years – UK ⁽ⁱ⁾	57	90	147	(59)	(60)	(119)
Adjustments in respect of prior years – non-UK ^(iv)	26	(8)	18	40	6	46
Total deferred tax	(188)	398	210	(31)	(445)	(476)
Total taxation on profit/(loss) ^(v)	(191)	352	161	(282)	(242)	(524)

(i) The net UK adjustments in respect of prior years in 2017 include uncertain tax provision movements of £49 million and deferred tax adjustments of £35 million relating to the treatment of certain derivatives.

(ii) An increased deferred PRT asset has been recognised, reflecting a reduction in long-term price forecasts and changes to expected decommissioning costs.

(iii) During the year, the US tax rate was reduced from 35% to 21%. This has resulted in a £3 million charge to be recognised within the year due to a change to the net deferred tax assets at the date the rate changed.

(iv) A comprehensive review as part of business transformation activities in North America during 2016 enabled certain deferred tax balances to be adjusted.

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

UK tax rates

The Group earns the majority of its profits in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which for 2017 was 19.25% (2016: 20%). Upstream gas and oil production activities are taxed at a UK corporation tax rate of 30% (2016: 30%) plus a supplementary charge of 10% (2016: 10%) to give an overall rate of 40% (2016: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2016: 0%), giving an overall effective rate of 40% (2016: 40%).

On 6 September 2016, the UK Government substantively enacted Finance Act 2016 which included a reduction in the main UK corporation tax rate to 17% from 1 April 2020. At 31 December 2017, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were based on the reduced rate having regard to their reversal profiles.

Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 24% (2016: 25%) plus a special tax of 54% (2016: 53%) resulting in an aggregate tax rate of 78% (2016: 78%). Profits earned in the US prior to 22 December 2017 were taxed at a Federal rate of 35% together with state taxes at various rates dependent on the state. On 22 December 2017, the US enacted a reduction in the Federal rate to 21% effective from 1 January 2018. Deferred tax assets and liabilities at 31 December 2017 were based on the reduced rate. Taxation for other jurisdictions is calculated at the rate prevailing in those respective jurisdictions, with rates ranging from 12.5% in the Republic of Ireland to 50% in the Netherlands. The tax charges were not material in such jurisdictions.

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

Movements in deferred tax liabilities and assets are disclosed in note 16.

Tax on items taken directly to equity is disclosed in note S4.

9. TAXATION

(b) Factors affecting the tax charge

The Group is expected to continue earning the majority of its profits in the UK and accordingly considers the standard UK rate to be the appropriate reference rate.

The differences between the total taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before taxation are as follows:

Year ended 31 December	2017			2016		
	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit/(loss) before taxation	901	(759)	142	1,167	1,019	2,186
Less: share of profits in joint ventures and associates, net of interest and taxation	(51)	28	(23)	(130)	28	(102)
Group profit/(loss) before taxation	850	(731)	119	1,037	1,047	2,084
Tax on profit at standard UK corporation tax rate of 19.25% (2016: 20%)	(164)	141	(23)	(207)	(209)	(416)
Effects of:						
Depreciation/impairment on non-qualifying assets (including write-backs)	(51)	(3)	(54)	(49)	12	(37)
Non-taxable disposals	7	3	10	(4)	12	8
Other non-allowable/non-taxable items	(2)	2	–	(5)	(8)	(13)
Higher rates applicable to upstream profits/losses	(149)	96	(53)	(61)	1	(60)
Upstream investment incentives	43	–	43	22	–	22
UK petroleum revenue tax	34	124	158	(3)	–	(3)
Non-UK tax rates ⁽ⁱ⁾	(35)	(14)	(49)	(60)	(107)	(167)
Movement in uncertain tax provisions	34	–	34	(4)	–	(4)
Movement in unrecognised deferred tax assets	(2)	(4)	(6)	14	13	27
Differences in deferred tax reversal rates	7	(5)	2	–	–	–
Changes to tax rates ⁽ⁱⁱ⁾	34	(37)	(3)	21	45	66
Adjustments in respect of prior years ⁽ⁱⁱⁱ⁾	53	49	102	54	(1)	53
Taxation on profits/(losses)	(191)	352	161	(282)	(242)	(524)
Less: movement in deferred tax	188	(398)	(210)	31	445	476
Total current tax	(3)	(46)	(49)	(251)	203	(48)

(i) Excludes additional non-UK tax applicable to upstream profits, notably in Norway.

(ii) Changes to tax rates on exceptional items and certain re-measurements includes a petroleum revenue tax charge of nil (2016: £90 million).

(iii) Excludes amounts included in movement in uncertain tax provisions that relate to prior years of £49 million credit (2016: £9 million charge).

The Group is subject to taxation in a number of jurisdictions. The complexity of applicable rules may result in legitimate differences of interpretation between the Group and taxing authorities (or between different taxing authorities) especially where an economic judgement or valuation is involved. Resolution of these differences typically takes many years. The uncertain tax provisions represent multiple layers of estimation for different time periods and different jurisdictions.

The principal element relates to transfer pricing challenges in jurisdictions outside the UK. While the Group applies the arm's length principle to all intra-group transactions, taking OECD guidance into account, taxing authorities may take different views. The outcome of resolving any disputes is not predictable; the provisions represent management's assessment of the most likely outcome of each issue. The assessment is reviewed and updated on a regular basis.

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes, such as in the UK where there is generally no offset between upstream gas and oil and downstream results. Losses realised in one territory cannot be offset against profits in another.

The Group's UK profits earned away from gas and oil production will benefit from reduced rates of corporation tax in 2018 and beyond (19% for 2018 and 2019, and 17% from 1 April 2020).

Profits from gas and oil production in the UK continue to be taxed at rates above the UK statutory rate (40% versus 19%). PRT is now set at 0% but may still give rise to historic refunds from the carry-back of excess reliefs (for example, from decommissioning).

Income earned in territories outside the UK, particularly in Norway, is generally subject to higher effective rates of tax than the current UK statutory rate.

US tax reform has reduced its Federal rate to 21% which will benefit the Group's effective rate assuming US profits continue.

Globally, tax reform has significant potential to change tax charges, particularly in relation to the OECD's Base Erosion and Profit Shifting (BEPS) project, which has widespread support. Based on current proposals, the Group does not expect its tax position to be impacted materially.

Notes to the Financial Statements (continued)

9. TAXATION

Local tax laws and rates are subject to change, which may have a significant impact on the Group's future tax charges.

In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate, reflecting a continued upward trend in profits earned outside the UK. The mix of upstream/downstream activities across regimes continues to be influential on the effective tax rate.

(d) Relationship between current tax charge and taxes paid

Year ended 31 December	UK £m	Non-UK £m	2017 Total £m	UK £m	Non-UK £m	2016 Total £m
Current tax charge/(credit):						
Corporation tax	72	40	112	(144)	200	56
Petroleum revenue tax	(63)	–	(63)	(8)	–	(8)
	9	40	49	(152)	200	48
Taxes (refunded)/paid:						
Corporation tax	(72)	190	118	89	129	218
Petroleum revenue tax	(16)	–	(16)	(12)	–	(12)
	(88)	190	102	77	129	206

Differences between current tax charged and taxes paid arose principally due to the following factors:

- Corporation tax payments are generally made by instalment, based on estimated taxable profits, or the prior period's profits. Payments are made on account and the final liability is settled as the tax return is filed. Fluctuations in profits from year to year, one-off items and mark-to-market movements within the year may therefore give rise to divergence between the charge for the year and the taxes paid. In certain jurisdictions advance tax payments are required (based on estimated tax liabilities) which can result in overpayments. These are included as tax assets, to be refunded in a subsequent period (2017 saw net refunds in the UK); and
- PRT refunds were based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Following the reduction in the PRT rate to 0% from 1 January 2016, PRT cash movements are expected to reflect refunds, but on a less predictable basis.

10. EARNINGS PER ORDINARY SHARE

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

Basic earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £333 million (2016: £1,672 million) by the weighted average number of ordinary shares in issue during the year of 5,537 million (2016: 5,318 million). The number of shares excludes 53 million ordinary shares (2016: 61 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

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

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Year ended 31 December	2017 Million shares	2016 Million shares
Weighted average number of shares – basic	5,537	5,318
Dilutive impact of share-based payment schemes ⁽ⁱ⁾	42	43
Weighted average number of shares – diluted	5,579	5,361

(i) The dilutive impact of share-based payment schemes is included in the calculation of diluted EPS, unless it has the effect of increasing the profit or decreasing the loss attributable to each share.

10. EARNINGS PER ORDINARY SHARE

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	2017		2016	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	333	6.0	1,672	31.4
Net exceptional items after taxation (notes 2 and 7) ⁽ⁱ⁾	435	7.9	(27)	(0.5)
Certain re-measurement gains after taxation (notes 2 and 7) ⁽ⁱ⁾	(70)	(1.3)	(750)	(14.1)
Earnings – adjusted basic	698	12.6	895	16.8
Earnings – diluted	333	6.0	1,672	31.2
Earnings – adjusted diluted	698	12.5	895	16.7

(i) Net exceptional loss after taxation of £476 million (2016: profit £27 million) is reduced by £41 million (2016: nil) for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests. Similarly, certain re-measurement gains of £69 million (2016: £750 million) are increased by £1 million (2016: nil) to reflect the share of net re-measurement losses attributable to non-controlling interests.

11. DIVIDENDS

Dividends represent the return of profits to shareholders and are paid twice a year, in June and November. 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.

	2017			2016		
	£m	Pence per share	Date of payment	£m	Pence per share	Date of payment
Prior year final dividend ⁽ⁱ⁾	459	8.40	29 Jun 2017	454	8.43	23 Jun 2016
Interim dividend	202	3.60	30 Nov 2017	197	3.60	24 Nov 2016
	661			651		

(i) Included within the prior year final dividend are forfeited dividends of £2 million (2016: £3 million) older than 12 years that were written back in accordance with Group policy.

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £470 million) for the year ended 31 December 2017. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2018 and, subject to approval, will be paid on 28 June 2018 to those shareholders registered on 11 May 2018.

Since 2015, the Company has offered a scrip dividend alternative to its shareholders. £191 million of the £459 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was £1.93 per share resulting in the issue of 99 million new shares and £185 million of share premium.

Similarly, £7 million of the £202 million interim dividend was taken as a scrip dividend. The market value per share at the date of payment was £1.74 resulting in the issue of 4 million new shares and £7 million of share premium.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. Refer to the Centrica plc Company Balance Sheet on page 191. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up the ownership chain to replenish Centrica plc's reserve levels.

Notes to the Financial Statements (continued)

12. ACQUISITIONS AND DISPOSALS

(a) 2017 business combinations

This section details business combinations made by the Group. During the year, the significant acquisitions were of Bayerngas Norge which was combined with the Group's Exploration & Production business in a newly formed business, Spirit Energy, in which the Group has a controlling stake of 69% and REstore, a Distributed Energy & Power demand response aggregator.

The fair values of acquired assets and liabilities are provisional unless otherwise stated. The purchase price allocation exercise requires management to make subjective judgements at the time control passes to the Group.

Bayerngas Norge

Spirit Energy Limited is the newly formed business combining the Group's existing Exploration & Production business with that of Bayerngas Norge AS. This transaction was completed on 8 December 2017 with the Group owning 69% of Spirit Energy and Bayerngas Norge's former shareholders owning 31%. The formation of Spirit Energy creates a strong and sustainable Exploration & Production business across the UK, Norway, the Netherlands and Denmark. It combines the Group's cash generative and relatively near-term production profile with Bayerngas Norge's more recently on-stream producing assets and development profile. The new business will invest in the range of £400-600 million per annum to deliver sustainable medium term production of 45-55 mmbœ. The consideration for the acquisition is the 31% share of the value of the combined Exploration & Production business of Spirit Energy attributable to the non-controlling interest that is provided in return for the Bayerngas Norge assets. This value includes cash, the value of indemnities provided by both parties and promises to pay further cash to fund net decommissioning liabilities of certain gas and oil fields. £102 million of goodwill was recognised on acquisition which predominately relates to goodwill in relation to the deferred tax liabilities recognised on acquisition. None of the goodwill is tax deductible.

REstore

On 3 November 2017, the Group acquired 100% of REstore NV's demand response business for cash consideration of £62 million. REstore provides key capabilities in energy optimisation and provides over 850MW of flexible power capacity to grid operators. This power is aggregated from a 2.2GW flexible portfolio of industrial and commercial customers across Belgium, the UK, France and Germany, and generates value for businesses through ancillary services including frequency response and capacity markets. The company's software and international patents are currently used by over 150 of Europe's largest energy users. The business is a strong fit with the DE&P business model and provides immediate capability to the division in terms of energy insight, asset optimisation and energy solutions to large energy users.

For this acquisition, the majority of the value is recognised as goodwill, which is reflective of the enhanced synergies, geographical presence, the assembled workforce and new and distinct capability in demand side response and management of battery equipment using a world class technology platform. In addition, the existing order book and future margins on renewed contracts are both captured in the customer intangible asset. £53 million of goodwill was recognised on acquisition, none of which is tax deductible.

REstore reported under Belgian GAAP. Upon review of Belgian GAAP versus IFRS no material accounting policy alignments have been identified.

Provisional fair value of the identifiable acquired assets and liabilities

	Bayerngas Norge £m	REstore £m	Total £m
Balance Sheet items			
Other intangible assets	42	13	55
Property, plant and equipment	761	3	764
Other non-current assets	107	–	107
Current assets (including £81 million of cash and cash equivalents)	134	4	138
Current liabilities (including £66 million of borrowings)	(134)	(8)	(142)
Non-current liabilities	(267)	(3)	(270)
Net identifiable assets	643	9	652
Goodwill	102	53	155
Net assets acquired	745	62	807
Consideration comprises:			
Cash consideration	–	62	62
31% share of Spirit Energy business ⁽ⁱ⁾	745	–	745
Total consideration	745	62	807
Income Statement items			
Revenue recognised since the acquisition date in the Group Income Statement ⁽ⁱⁱ⁾	33	2	35
Profit/(loss) since the acquisition date in the Group Income Statement ⁽ⁱⁱ⁾	4	(1)	3

(i) This has been recorded as a non-controlling interest of £721 million and a £24 million other reserve. See note S4 for further details.

(ii) Revenue and profits/losses from business performance between the acquisition date and the balance sheet date exclude exceptional items and certain re-measurements.

Other acquisitions in the year, including Rokitt Inc., were immaterial and resulted in no goodwill being recognised.

Acquisition-related costs have been charged to 'operating costs before exceptional items' in the Group Income Statement for an aggregated amount of £16 million.

12. ACQUISITIONS AND DISPOSALS

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 £28,263 million (compared to reported revenue of £28,023 million) and profit after taxation before exceptional items and certain re-measurements of £702 million (compared to reported profit after taxation of £710 million). This pro forma information includes the revenue and profits/losses made by the acquired businesses between the beginning of the financial year and the date of the acquisition, without accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

(b) 2016 business combinations – measurement period adjustments

During the year, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2016. Goodwill in respect of these acquisitions decreased by £1 million.

(c) Assets and liabilities of disposal groups classified as held for sale

Assets and associated liabilities that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet.

There were no disposal groups held for sale as at 31 December 2017, with items previously classified as held for sale at 31 December 2016 (Trinidad and Tobago gas assets and Lincs Wind Farm) and 30 June 2017 (Canadian exploration and production and UK gas-fired power stations) disposed of during the period.

(d) Disposals

During the year, the Group sold its interest in the Lincs Wind Farm, Langage and South Humber power stations, Trinidad and Tobago gas assets and the Canadian exploration and production business. This note details the consideration received, the assets and liabilities disposed of and the profit/(loss) before and after tax arising on disposal.

Date of disposal	17 February 2017	27 May 2017	31 August 2017	29 September 2017
Business/assets disposed of by the Group	Lincs Wind Farm	Trinidad and Tobago gas assets	Langage and Humber gas fired power stations and King's Lynn new build development	Canadian exploration and production
Sold to	UK Green Investment Bank	Shell Exploration and Production	EP UK Investments Limited	MIE Holding Corporation, The Can-China Global Resource Fund and Mercuria
	£m	£m	£m	£m
Held within disposal group:				
Property, plant and equipment	–	66	344	789
Intangible assets	–	–	–	111
Interests in joint ventures (including shareholder loans)	168	–	–	–
Other assets (including cash of £20 million)	–	6	21	54
Current liabilities	–	–	(34)	(25)
Non-current provisions and other liabilities and charges	–	(40)	(24)	(493)
Net assets disposed of	168	32	307	436
Consideration received net of associated transaction costs ⁽ⁱ⁾	214	26	314	255
Total consideration	214	26	314	255
Recycling of share of joint venture cash flow hedging reserve on disposal	(10)	–	–	–
Recycling of foreign currency translation reserve on disposal	–	(3)	–	(5)
Profit on termination of related power purchase agreement	28	–	–	–
Transfer of non-controlling interest	–	–	–	152
(Loss)/profit on related commodity hedges	–	–	(14)	6
Profit/(loss) on disposal before tax ⁽ⁱⁱ⁾	64	(9)	(7)	(28)
Taxation	(6)	–	–	–
Profit/(loss) on disposal after tax	58	(9)	(7)	(28)

(i) Cash flows from sale of businesses in the Group Cash Flow Statement are presented net of £6 million cash outflow for Langage and Humber gas fired power stations and £6 million cash inflow for Canada exploration and production in respect of the settlement of related commodity hedges. For Langage and Humber there will be a further £8 million cash outflow in 2018 to reflect full settlement of the commodity hedge.

(ii) As the disposal assets were identified as areas of the business to sell as part of the strategic review in 2015, the net pre-tax profit on disposal of £20 million has been identified as an exceptional item. See note 7.

Notes to the Financial Statements (continued)

12. ACQUISITIONS AND DISPOSALS

On 17 February 2017, the Group sold its 50% shareholding in Lincs Wind Farm to the UK Green Investment Bank Financial Services managed entities and the UK Green Investment Bank plc for net consideration of £214 million. None of the consideration was contingent or deferred. A pre-tax profit on disposal of £64 million was recognised as an exceptional item (see note 7). The profit on disposal included a gain of £28 million which was recognised following cessation of the associated power purchase agreement.

On 27 May 2017, the Group disposed of its Trinidad and Tobago gas assets to Shell Exploration and Production for net proceeds of US\$35 million (£26 million) recording an exceptional loss on disposal of £9 million which included the recycling of losses from the foreign currency translation reserve of £3 million (see note 7). Contingent consideration of up to US\$40 million is receivable subject to Block 22 and NCMA-4 achieving agreed development project milestones, however no amounts have been recognised in the year.

On 31 August 2017, the Group disposed of the Langage and South Humber Bank power stations and the King's Lynn B new build development to EP UK Investments Limited for net consideration after transaction costs of £314 million. A loss on disposal of £7 million was recognised as an exceptional item (see note 7). The disposal loss included a loss of £14 million in relation to the settlement of commodity related hedges.

On 29 September 2017, the Group disposed of its 60% interest in the CQ Energy Canada Partnership to a consortium comprising MIE Holding Corporation, the Can-China Global Resource Fund and Mercuria for net proceeds of C\$420 million (£255 million) which resulted in a loss on disposal of £28 million which was recognised as an exceptional item (see note 7). The loss included recycling of losses from the foreign currency translation reserve of £5 million and a gain of £6 million on settlement of related commodity hedges.

On 20 December 2017, the Group also disposed of NSIP (ETS) Limited to Antin North Sea 2 Limited for net proceeds of £15 million resulting in a profit on disposal of £12 million.

All other disposals undertaken by the Group were immaterial, both individually and in aggregate. None of these disposals are material enough to be shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or material geographical area of operations.

13. PROPERTY, PLANT AND EQUIPMENT

PP&E includes significant investment in power stations, gas production and gas storage assets. Once operational, all assets are depreciated over their useful lives.

(a) Carrying amounts

	2017					2016				
	Land and buildings £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	Total £m	Land and buildings (restated) (i) £m	Plant, equipment and vehicles (restated) (i) £m	Power generation (restated) (i) £m	Gas production and storage £m	Total £m
Cost										
1 January	40	667	1,856	16,571	19,134	30	602	2,070	14,944	17,646
Additions and capitalised borrowing costs (note 4(e))	27	115	134	431	707	2	91	20	561	674
Acquisitions	–	3	–	761	764	6	1	22	–	29
Disposals/retirements (ii)	–	(198)	(2)	(10)	(210)	–	(88)	(260)	(18)	(366)
Transfers	–	–	–	–	–	–	–	–	98	98
Transfers to disposal groups held for sale	–	(11)	(1,041)	(2,301)	(3,353)	–	–	(4)	(315)	(319)
Decommissioning liability revisions and additions (note 21) (iii)	–	4	1	86	91	–	22	–	279	301
Exchange adjustments	(3)	(14)	2	(110)	(125)	2	39	8	1,022	1,071
31 December	64	566	950	15,428	17,008	40	667	1,856	16,571	19,134
Accumulated depreciation and impairment										
1 January	17	298	1,454	12,067	13,836	16	262	1,704	11,035	13,017
Charge for the year	2	85	16	568	671	1	94	35	523	653
Impairments/(write-backs)	–	1	(13)	848	836	–	–	(28)	139	111
Disposals/retirements (ii)	–	(191)	(2)	(2)	(195)	–	(79)	(258)	(11)	(348)
Transfers to disposal groups held for sale	–	(7)	(697)	(1,516)	(2,220)	–	–	–	(249)	(249)
Exchange adjustments	2	(7)	3	(50)	(52)	–	21	1	630	652
31 December	21	179	761	11,915	12,876	17	298	1,454	12,067	13,836
NBV at 31 December	43	387	189	3,513	4,132	23	369	402	4,504	5,298

(i) Following a review of PP&E classifications by management, opening balances have been reclassified to present certain distributed energy and power assets separately from power generation assets. These assets are included in the relevant PP&E category that reflects their nature.

(ii) Included within plant, equipment and vehicles disposals/retirements are £106 million of gross assets in UK Home and £66 million in North America Business with a net book value of zero that have been retired.

(iii) Includes £4 million revision to dilapidations provisions on UK properties.

(b) Assets in the course of construction included in above carrying amounts

	2017 £m	2016 £m
31 December		
Plant, equipment and vehicles	49	55
Gas production and storage	652	505
Power generation	100	7

Notes to the Financial Statements (continued)

13. PROPERTY, PLANT AND EQUIPMENT

(c) Assets held under finance leases and to which title was restricted included in above carrying amounts

	2017			Total £m	2016			Total £m
	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m		Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	
Cost at 1 January	80	469	415	964	48	469	415	932
Additions	53	–	–	53	32	–	–	32
Disposals	(1)	–	–	(1)	–	–	–	–
Cost at 31 December	132	469	415	1,016	80	469	415	964
Accumulated depreciation at 1 January	9	469	398	876	2	469	397	868
Charge for the year	14	–	1	15	7	–	1	8
Accumulated depreciation at 31 December	23	469	399	891	9	469	398	876
NBV at 31 December	109	–	16	125	71	–	17	88

14. INTERESTS IN JOINT VENTURES AND ASSOCIATES

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

(a) Interests in joint ventures and associates

	2017			Total £m
	Investments in joint ventures and associates (i) £m	Investments in joint ventures and associates £m	Shareholder loans £m	
1 January	1,697	1,679	160	1,839
Additions	6	17	–	17
Disposals	(4)	21	(41)	(20)
Share of profits for the year	23	102	–	102
Share of other comprehensive income	43	56	–	56
Transfer to held for sale	–	(55)	(113)	(168)
Impairment ⁽ⁱⁱ⁾	(4)	(3)	–	(3)
Dividends ⁽ⁱⁱⁱ⁾	(60)	(129)	–	(129)
Exchange adjustments	(2)	3	–	3
31 December	1,699	1,691	6	1,697

(i) There are no shareholder loans remaining as at 31 December 2017.

(ii) Including impairment of shareholder loans of £1 million, subsequently disposed.

(iii) Included within dividends is a non-cash £2 million (2016: £12 million) tax credit received in lieu of payment.

(b) Share of joint ventures' and associates' assets and liabilities

31 December	2017		Total £m	2016 Total £m
	Associates Nuclear £m	Other £m		
Share of non-current assets	3,678	11	3,689	3,687
Share of current assets	692	9	701	641
	4,370	20	4,390	4,328
Share of current liabilities	(139)	(1)	(140)	(150)
Share of non-current liabilities	(1,961)	(1)	(1,962)	(1,901)
	(2,100)	(2)	(2,102)	(2,051)
Cumulative impairment	(586)	(3)	(589)	(586)
Share of net assets of joint ventures and associates	1,684	15	1,699	1,691
Shareholder loans	–	–	–	6
Interests in joint ventures and associates	1,684	15	1,699	1,697
Net cash included in share of net assets	84	–	84	78

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

15. OTHER INTANGIBLE ASSETS AND GOODWILL

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities, the assembled workforce and also arises from items such as deferred tax. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates (ROCs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to PP&E or is deemed not commercially viable and is written down.

(a) Carrying amounts

	2017						2016					
	Customer relationship- ships and brands £m	Application software (i) (ii) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m	Customer relationship- ships and brands £m	Application software (i) (ii) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	804	1,581	311	425	3,321	6,442	683	1,380	299	485	2,778	5,625
Additions and capitalised borrowing costs (note 4(e))	–	230	813	41	–	1,084	–	196	629	11	–	836
Acquisitions	2	16	–	42	154	214	48	13	19	–	250	330
Disposals/retirements and surrenders ⁽ⁱⁱⁱ⁾	(6)	(226)	(786)	(2)	–	(1,020)	(34)	(75)	(664)	–	(10)	(783)
Write-downs	–	–	–	(21)	–	(21)	–	–	–	(19)	–	(19)
Transfers	–	–	–	–	–	–	–	–	–	(98)	–	(98)
Transfers to disposal groups held for sale ^(iv)	–	(6)	–	(153)	(133)	(292)	–	–	–	–	(88)	(88)
Exchange adjustments	(51)	(25)	(15)	(8)	(130)	(229)	107	67	28	46	391	639
31 December	749	1,570	323	324	3,212	6,178	804	1,581	311	425	3,321	6,442
Accumulated amortisation												
1 January	496	695	2	159	707	2,059	387	524	2	159	729	1,801
Amortisation ^(v)	65	197	–	–	–	262	73	195	–	–	–	268
Impairments	–	–	–	–	–	–	–	14	–	–	–	14
Disposals/retirements and surrenders ⁽ⁱⁱⁱ⁾	(6)	(223)	(2)	–	–	(231)	(34)	(71)	–	–	–	(105)
Transfers to disposal groups held for sale ^(iv)	–	(6)	–	(42)	(133)	(181)	–	–	–	–	(88)	(88)
Exchange adjustments	(41)	(4)	–	–	(12)	(57)	70	33	–	–	66	169
31 December	514	659	–	117	562	1,852	496	695	2	159	707	2,059
NBV at 31 December	235	911	323	207	2,650	4,326	308	886	309	266	2,614	4,383

(i) Application software includes assets under construction with a cost of £250 million (2016: £229 million).

(ii) The remaining amortisation period of material application software assets, which had a carrying value of £206 million (2016: £223 million), is between six and eight years.

(iii) Included within disposals/retirements and surrenders are £226 million (2016: £86 million) of gross assets that have been retired and have a net book value of zero.

(iv) Transfers to disposal groups held for sale in 2017 are in respect of the Canadian exploration and production business and the Langage and Humber CCGT power stations. See note 12(d).

(v) Amortisation of £1 million (2016: £7 million) has been recognised in cost of sales before exceptional items and certain re-measurements, and £261 million (2016: £261 million) has been recognised in operating costs before exceptional items.

Notes to the Financial Statements (continued)

15. OTHER INTANGIBLE ASSETS AND GOODWILL

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

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

31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	Carrying amount of goodwill £m	Carrying amount of indefinite-lived intangible assets (i) £m	2017		2016	
				Total £m	Carrying amount of goodwill £m	Total £m	Carrying amount of indefinite-lived intangible assets (i) £m
CGUs							
Centrica Consumer:							
UK Home	AlertMe/Dyno-Rod	63	57	120	63	57	120
Ireland	Bord Gáis Energy	16	–	16	15	–	15
North America Home	Direct Energy/ATCO/ CPL/WTU/FCP/Bounce/Residential Services Group/Clockwork/Astrum Solar	1,029	14	1,043	1,105	16	1,121
Connected Home	AlertMe/FlowGem	31	–	31	31	–	31
Centrica Business:							
UK Business	Enron Direct/Electricity Direct	181	–	181	181	–	181
North America Business	Direct Energy/ATCO/Strategic Energy/FCP/HEM	524	–	524	565	–	565
Distributed Energy & Power	ENER-G/Panoramic Power/REstore	169	–	169	119	–	119
Energy Marketing & Trading	Neas Energy	150	–	150	145	–	145
Exploration & Production:							
UK/Norway/Netherlands	Newfield/Heimdal/Venture/Bayerngas	487	–	487	390	–	390
		2,650	71	2,721	2,614	73	2,687

(i) The indefinite-lived assets mainly relate to the Mr Sparky and Benjamin Franklin brands acquired as part of the Clockwork business combination, and the Dyno-Rod brand.

Further details regarding assumptions used in the impairment tests of CGUs with goodwill or indefinite-lived intangible assets allocated to them are provided in note S2. Sensitivities to these assumptions for goodwill allocated to the Exploration & Production CGU are provided in note 7(c). The impairment tests for the Connected Home and Distributed Energy & Power CGUs did not result in any impairment. These tests are dependent on these currently loss-making businesses becoming profitable in the future.

16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax assets and liabilities recognised by the Group relate to capital investments, decommissioning assets and provisions, tax losses, fair value movements on derivative financial instruments, PRT and pensions.

	Accelerated tax depreciation (corporation tax) £m	Net decommissioning (i) (ii) £m	Losses carried forward (i) (iii) £m	Other timing differences (i) £m	Marked to market positions £m	Net deferred PRT (iv) £m	Retirement benefit obligation and other provisions £m	Total £m
1 January 2016	(920)	779	169	(123)	442	77	(25)	399
Credit/(charge) to income – change in tax rates	161	(68)	(25)	1	16	(41)	22	66
(Charge)/credit to income – other	(345)	151	159	221	(630)	(21)	(77)	(542)
(Charge)/credit to equity	–	–	–	(1)	(3)	–	194	190
Acquisition/disposal of businesses	(6)	–	–	(15)	–	–	–	(21)
Transfer of deferred tax liabilities to disposal groups held for sale	–	–	–	3	–	–	–	3
Exchange and other adjustments	65	39	–	(126)	34	–	4	16
31 December 2016	(1,045)	901	303	(40)	(141)	15	118	111
Credit/(charge) to income – change in tax rates	14	–	–	20	(37)	–	–	(3)
Credit/(charge) to income – other	130	(57)	(235)	172	100	121	(18)	213
(Charge)/credit to equity	–	–	–	(1)	1	–	(38)	(38)
Acquisition/disposal of businesses	(150)	28	221	(7)	–	–	–	92
Transfer of deferred tax liabilities to disposal groups held for sale	127	–	–	(97)	–	–	–	30
Exchange and other adjustments	(7)	(8)	46	(38)	(3)	–	–	(10)
31 December 2017	(931)	864	335	9	(80)	136	62	395

(i) Balances restated to show net decommissioning and losses carried forward separately from other timing differences.

(ii) Net decommissioning includes deferred tax assets of £1,233 million (2016: £1,300 million) in respect of decommissioning provisions.

(iii) The losses arise principally from accelerated allowances for upstream investment expenditure, for which equivalent deferred tax liabilities are included under accelerated tax depreciation.

(iv) The deferred PRT amounts include the effect of deferred corporation tax as PRT is chargeable to corporation tax.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

31 December	Assets £m	2017 Liabilities £m	Assets £m	2016 Liabilities £m
Gross deferred tax balances	2,231	(1,836)	1,725	(1,614)
Offsetting deferred tax balances	(1,663)	1,663	(1,369)	1,369
Net deferred tax balances (after offsetting for financial reporting purposes)	568	(173)	356	(245)

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward, retirement benefit obligations and marked to market positions. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to gas and oil production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date the Group had certain unrecognised deductible temporary differences of £1,538 million (2016: £1,276 million), of which £1,538 million (2016: £1,073 million) are carried forward tax losses available for utilisation against future taxable profits. Some £98 million (2016: £313 million) of these losses will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2016: nil). The deferred tax liability arising on these temporary differences is estimated to be nil (2016: nil).

Notes to the Financial Statements (continued)

17. TRADE AND OTHER RECEIVABLES

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of provisions for bad debt. Other receivables include payments made in advance to our suppliers.

31 December	Current £m	2017 Non-current £m	Current £m	2016 Non-current £m
Financial assets:				
Trade receivables	2,073	–	2,305	–
Accrued energy income	2,275	–	2,394	–
Other accrued income	129	–	123	–
Cash collateral posted (note 24(c))	253	–	307	–
Other receivables (including loans)	225	54	231	41
	4,955	54	5,360	41
Less: provision for credit losses	(599)	–	(697)	–
	4,356	54	4,663	41
Non-financial assets: prepayments and other receivables	312	33	439	25
	4,668	87	5,102	66

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:

31 December	Current £m	2017 Non-current £m	Current £m	2016 Non-current £m
Financial assets by class:				
Residential customers	1,650	6	1,690	8
Business customers	2,238	48	2,429	32
Treasury, trading and energy procurement counterparties	1,067	–	1,241	1
	4,955	54	5,360	41
Less: provision for credit losses	(599)	–	(697)	–
	4,356	54	4,663	41

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

Current financial assets within trade and other receivables net of provision for credit losses

31 December	2017 £m	2016 (restated) (i) £m
Balances that are not past due	3,370	3,616
Balances that are past due but not considered to be individually impaired	939	1,005
Balances with customers that are considered to be individually impaired	47	42
	4,356	4,663

An ageing of the carrying value of trade and other receivables that are past due that are not considered to be individually impaired is as follows:

31 December	2017 £m	2016 (restated) (i) £m
Financial assets within trade and other receivables		
Days past due:		
Less than 30 days	475	461
30 to 89 days	144	206
Less than 90 days	619	667
90 to 182 days	67	113
183 to 365 days	136	142
Greater than 365 days	117	83
	939	1,005

(i) The analysis of certain balances as at 31 December 2016 has been restated to reflect more accurately the underlying ageing of the trade and other receivables.

17. TRADE AND OTHER RECEIVABLES

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, informed by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote. The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

	2017			2016				
	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	(395)	(296)	(6)	(697)	(359)	(332)	(3)	(694)
Impairment of trade receivables ⁽ⁱ⁾	(102)	(35)	–	(137)	(117)	(58)	(3)	(178)
Receivables written off	150	83	2	235	81	94	–	175
31 December	(347)	(248)	(4)	(599)	(395)	(296)	(6)	(697)

(i) 2016 includes £4 million reclassified to deferred income for related cancel/rebill activity.

18. INVENTORIES

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	2017 £m	2016 £m
Gas in storage and transportation	191	190
Other raw materials and consumables	151	175
Finished goods and goods for resale	67	7
	409	372

The Group consumed £555 million of inventories (2016: £750 million) during the year. Write-downs amounting to £7 million (2016: £10 million) were charged to the Group Income Statement in the year. Gas held in storage amounting to £26 million is held at fair value.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value, with changes in fair value recognised in the Group's results for the year, before exceptional items and certain re-measurements. ⁽ⁱ⁾
Energy procurement/optimisation	Carried at fair value, with changes in fair value reflected in certain re-measurements.

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. Note S5 provides further detail on the Group's hedge accounting.

Notes to the Financial Statements (continued)

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

31 December	Assets £m	2017 Liabilities £m	Assets £m	2016 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement/optimisation	1,020	(868)	1,420	(1,360)
Energy derivatives – for proprietary trading	48	(70)	33	(92)
Interest rate derivatives	–	(28)	–	(30)
Foreign exchange derivatives	32	(32)	93	(103)
Energy contracts designated at fair value through profit or loss	–	–	18	–
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives ⁽ⁱ⁾	128	(6)	158	(6)
Foreign exchange derivatives ⁽ⁱ⁾	162	(16)	151	(2)
Total derivative financial instruments	1,390	(1,020)	1,873	(1,593)
Included within:				
Derivative financial instruments – current	927	(733)	1,291	(1,100)
Derivative financial instruments – non-current	463	(287)	582	(493)

(i) Included within these categories are £266 million (2016: £291 million) of derivatives used to hedge movements in net debt. See note 24(c).

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	2017 £m	2016 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	(93)	(165)
North America	123	(59)
Structured gas purchase contracts	153	296
Structured gas sales contracts	(2)	(10)
Structured power purchase contracts	(16)	(45)
Other	(35)	2
Net total	130	19

Net gains/(losses) on derivative financial instruments due to re-measurement

31 December	Income Statement £m	2017 Equity £m	Income Statement £m	2016 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for trading (proprietary trading)	29	–	(89)	–
Derivative financial instruments – held for trading	173	–	1,040	–
Energy contracts designated at fair value through profit or loss	(17)	–	(2)	–
Derivative financial instruments in hedge accounting relationships	(39)	1	25	185
	146	1	974	185

20. TRADE AND OTHER PAYABLES

Trade and other payables include accruals and are principally amounts we owe to our suppliers. Deferred income represents monies received from customers in advance of the delivery of goods or the performance of services by the Group.

31 December	2017		Current (restated) (i) £m	2016 Non-current £m
	Current £m	Non-current £m		
Financial liabilities:				
Trade payables	(607)	–	(468)	–
Deferred income	(359)	–	(534)	–
Capital payables	(175)	(110)	(142)	–
Other payables	(393)	(14)	(399)	(40)
Accruals:				
Commodity costs	(1,776)	–	(1,778)	–
Transportation, distribution and metering costs	(378)	–	(407)	–
Operating and other accruals	(858)	–	(898)	–
	(3,012)	–	(3,083)	–
	(4,546)	(124)	(4,626)	(40)
Non-financial liabilities:				
Other payables and accruals	(694)	(17)	(673)	(18)
Deferred income	(172)	(26)	(226)	(11)
	(5,412)	(167)	(5,525)	(69)

(i) Following a review of the classification of trade and other payables, 2016 comparatives have been re-presented to show certain trade payables amounting to £231 million as commodity accruals.

Financial liabilities within current trade and other payables

31 December	2017 £m	2016 £m
Less than 90 days	(4,304)	(4,402)
90 to 182 days	(139)	(123)
183 to 365 days	(103)	(101)
	(4,546)	(4,626)

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing and/or amount of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Further provisions relate to sale and purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters.

Current	1 January 2017	Acquisitions and disposals	Charged in the year	Notional interest	Unused and reversed in the year	Utilised	Transfers (i)	Exchange adjustments	31 December 2017
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Restructuring costs	(87)	–	(70)	–	34	56	37	1	(29)
Decommissioning costs (ii)	(226)	(1)	–	–	–	117	(51)	(1)	(162)
Sale/purchase contract loss provision (iii)	(63)	–	(8)	–	5	44	(24)	2	(44)
Other (iv)	(81)	–	(27)	–	44	44	(7)	(2)	(29)
	(457)	(1)	(105)	–	83	261	(45)	–	(264)
Non-current	1 January 2017	Acquisitions and disposals	Charged in the year	Notional interest	Unused and reversed in the year	Revisions and additions	Transfers (i)	Exchange adjustments	31 December 2017
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Restructuring costs	(21)	–	(1)	–	5	–	8	–	(9)
Decommissioning costs (ii)	(2,920)	(144)	(33)	(40)	130	(87)	544	27	(2,523)
Sale/purchase contract loss provision (iii)	(97)	–	(6)	–	1	–	24	1	(77)
Other (iv)	(61)	(9)	(8)	(1)	–	(4)	7	1	(75)
	(3,099)	(153)	(48)	(41)	136	(91)	583	29	(2,684)

Notes to the Financial Statements (continued)

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Included within the above liabilities are the following financial liabilities:

Financial liabilities 31 December	2017		2016	
	Current £m	Non-current £m	Current £m	Non-current £m
Restructuring costs	(29)	(9)	(87)	(18)
Provisions other than restructuring costs	(70)	(141)	(142)	(148)
	(99)	(150)	(229)	(166)

- (i) Includes transfers to/from other balance sheet accounts including retirement benefit obligations and liabilities of disposal groups classified as held for sale.
- (ii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is expected to occur by 2040.
- (iii) The sale/purchase contract loss provision relates mainly to a number of European gas transportation contracts and Direct Energy wind farm power purchase agreements. The majority of the provision is expected to be utilised by 2020.
- (iv) Other provisions have been made for dilapidations, insurance, legal and various other claims.

22. POST-RETIREMENT BENEFITS

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

(a) Summary of main post-retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at	Total membership as at
				31 December 2017	31 December 2017
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	3,425	8,592
Centrica Pension Plan	Defined benefit career average pension	Open to service engineers only	UK	3,605	5,372
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	2,933	8,664
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	7	10,566
	Defined benefit career average pension	Closed to new members in 2008	UK	1,413	4,133
	Defined contribution pension	Open to new members	UK	14,447	21,696
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	139	175
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	193	241
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	8	377
Direct Energy Marketing Limited	Post-retirement benefits	Closed to new members in 2012	Canada	12	260

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 were carried out at the following dates: the Registered Pension Schemes at 31 March 2015, the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2017 and the Direct Energy Marketing Limited Pension Plan at 1 August 2014. These have been updated to 31 December 2017 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 2015 valuations.

22. POST-RETIREMENT BENEFITS

(b) Risks

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

Asset volatility

The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability-related investment objectives (which were updated in 2017) 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 liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return-seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short term. The investment objectives are to achieve a long-term target return of 4% per annum in nominal terms, subject to a maximum level of modelled downside risk exposure.

Interest rate

A decrease in the bond interest rate 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.

Inflation

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

Longevity

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

Salary

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented. Both the 2011 and 2016 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 2017.

Total liabilities of the Registered Pension Schemes	2017
31 December	%
Actives – final salary – capped	28
Actives – final salary – uncapped and crystallised benefits	6
Actives – career average	7
Deferred pensioners	30
Pensioners	29
	100

Notes to the Financial Statements (continued)

22. POST-RETIREMENT BENEFITS

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation		2017	2016
31 December		%	%
Rate of increase in employee earnings:			
Subject to 2% cap		1.7	1.7
Other not subject to cap		2.3	3.2
Rate of increase in pensions in payment		3.1	3.2
Rate of increase in deferred pensions:			
In line with CPI capped at 2.5%		2.0	2.1
In line with RPI		3.1	3.2
Discount rate		2.6	2.7

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		2017		2016	
31 December		Male	Female	Male	Female
		Years	Years	Years	Years
Currently aged 65		23.0	24.6	23.2	24.9
Currently aged 45		24.5	26.1	25.0	26.8

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.

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	2017		2016	
	Increase/ decrease in assumption	Indicative effect on scheme liabilities	Increase/ decrease in assumption	Indicative effect on scheme liabilities
31 December	%	%	%	%
Rate of increase in employee earnings subject to 2% cap	0.25%	+/-0	0.25%	+/-1
Rate of increase in pensions in payment and deferred pensions	0.25%	+/-5	0.25%	+/-5
Discount rate	0.25%	-/+6	0.25%	-/+6
Inflation assumption	0.25%	+/-5	0.25%	+/-5
Longevity assumption	1 year	+/-3	1 year	+/-3

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

	2017	2016
31 December	£m	£m
Fair value of plan assets	8,451	7,938
Present value of defined benefit obligation	(9,337)	(9,075)
Net liability recognised in the Group Balance Sheet	(886)	(1,137)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit obligations	(886)	(1,137)

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

22. POST-RETIREMENT BENEFITS

(e) Movements in the year

	Pension liabilities £m	2017 Pension assets £m	Pension liabilities £m	2016 Pension assets £m
1 January	(9,075)	7,938	(6,761)	6,642
Items included in the Group Income Statement:				
Current service cost	(125)	–	(118)	–
Contributions by employer in respect of employee salary sacrifice arrangements ⁽ⁱ⁾	(31)	–	(23)	–
Total current service cost	(156)	–	(141)	–
Past service (cost)/credit ⁽ⁱⁱ⁾	(7)	–	80	–
Interest (expense)/income	(245)	215	(265)	258
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	–	309	–	994
Actuarial gain from changes to demographic assumptions	70	–	93	–
Actuarial loss from changes in financial assumptions	(120)	–	(2,361)	–
Actuarial (loss)/gain from experience adjustments	(37)	–	100	–
Exchange adjustments	1	–	(13)	6
Items included in the Group Cash Flow Statement:				
Employer contributions	–	236	–	225
Contributions by employer in respect of employee salary sacrifice arrangements ⁽ⁱ⁾	–	31	–	23
Other movements:				
Plan participants' contributions	(2)	2	(1)	1
Benefits paid from schemes	287	(287)	202	(202)
Acquisition of businesses ⁽ⁱⁱⁱ⁾	(8)	7	–	–
Settlement	–	–	9	(9)
Transfers from provisions for other liabilities and charges	(45)	–	(17)	–
31 December	(9,337)	8,451	(9,075)	7,938

(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 current service cost, with a corresponding reduction in salary costs.

(ii) A £7 million charge was recognised in the year as a result of the curtailment for certain employees within the Registered Pension Schemes upon the combination of the Group's Exploration & Production business with Bayerngas Norge. See note 12(a).

(iii) As part of the combination of the Group's Exploration & Production business with Bayerngas Norge, a Norwegian defined benefit pension scheme was acquired. The scheme is expected to close to future accrual during 2018.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £45 million (2016: £44 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £13 million (2016: £13 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market values of plan assets were:

	Quoted £m	Unquoted £m	2017 Total £m	Quoted £m	Unquoted £m	2016 Total £m
31 December						
Equities	2,121	303	2,424	1,991	307	2,298
Diversified asset funds	–	–	–	50	–	50
Corporate bonds	1,303	–	1,303	1,294	–	1,294
High-yield debt	280	1,451	1,731	309	1,296	1,605
Liability matching assets	1,663	952	2,615	1,241	844	2,085
Property	–	374	374	–	323	323
Cash pending investment	4	–	4	283	–	283
	5,371	3,080	8,451	5,168	2,770	7,938

Included within equities are no ordinary shares of Centrica plc (2016: £1 million) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £1 million (2016: £1 million) of bonds issued by Centrica plc 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 note 22(g), 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.

Included within the Group Balance Sheet within non-current securities are £94 million (2016: £85 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, £63 million (2016: £62 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 78 to 89.

Notes to the Financial Statements (continued)

22. POST-RETIREMENT BENEFITS

(g) Pension scheme contributions

The Group estimates that it will pay £89 million of ordinary employer contributions during 2018, at an average rate of 23% of pensionable pay, together with £32 million of contributions paid via the salary sacrifice arrangement. At 31 March 2015 (the date of the latest full actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 24 years.

During 2016, the Group finalised the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group committed to additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, had increased from £331 million in 2012 to £1,203 million in 2015 primarily due to a lower discount rate used following falls in market yields. The funding is provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, was agreed in support of these arrangements.

Although the Group established a new funding arrangement during 2016 based on the position as at 31 March 2015, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The next UK Registered Pension Schemes triennial review will be based on the position as at 31 March 2018. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £2 million was paid in 2017 with further annual contributions of £1 million to be paid in 2018 and 2019.

23. 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 procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The 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.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note S3. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note S3. In addition, the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

On 25 March 2013, the Group and Company announced that it had entered into a 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US, subject to a number of project milestones and regulatory approvals being achieved. During 2015, Cheniere made a positive final investment decision on the fifth project at Sabine Pass following receipt of Federal Energy Regulatory Commission approval and a Non-Free Trade Agreement licence from the Department of Energy. Under the terms of the agreement with Cheniere, the Group is committed to make capacity payments of £3.8 billion (included in 'LNG capacity' below) between 2019 and 2039. The Group may also make up to £8.0 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is estimated by the terminal operator as September 2019.

23. COMMITMENTS AND CONTINGENCIES

31 December	2017 £m	2016 (restated) (i) £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Danish Hejre gas and oil field	219	–
Development of Norwegian Oda gas and oil field	55	79
Development of Norwegian Maria gas and oil field	31	61
Other Exploration & Production capital expenditure	162	107
Development of King's Lynn A CCGT	50	6
Other capital expenditure	29	51
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (ii)	–	700
Renewable obligation certificates to be purchased from other parties	4,261	3,405
Other intangible assets	372	299
Other commitments:		
Commodity purchase contracts	42,324	47,836
LNG capacity	4,401	4,469
Transportation capacity	997	983
Outsourcing of services	119	111
Power station tolling fees	152	196
Smart meters	145	149
Power station operating and maintenance	23	68
Other long-term commitments	138	178
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	388	381

(i) Commitments as at 31 December 2016 have been re-presented to be consistent with current year disclosures. In addition, £101 million of other long-term commitments have been restated to commodity purchase contracts to reflect more accurately the underlying nature of these commitments.

(ii) Following the disposal of Lincs Wind Farm Limited, the Group no longer purchases renewable obligation certificates from its joint ventures. See note 12(d).

At 31 December the maturity analyses for commodity purchase contract commitments and the total minimum lease payments under non-cancellable operating leases were:

31 December	Commodity purchase contract commitments		Total minimum lease payments under non-cancellable operating leases	
	2017 £billion	2016 (restated) (i) £billion	2017 £m	2016 £m
<1 year	11.2	11.5	120	91
1–2 years	6.0	6.6	77	78
2–3 years	4.4	4.6	46	49
3–4 years	3.7	4.2	38	38
4–5 years	3.6	3.8	30	31
>5 years	13.4	17.1	77	94
	42.3	47.8	388	381

(i) Other long-term commitments of £101 million have been restated to commodity purchase contracts to reflect more accurately the underlying nature of these commitments.

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	2017 £m	2016 £m
Minimum lease payments (net of sub-lease receipts)	90	100
Contingent rents – renewables (i)	73	68

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2016: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

Notes to the Financial Statements (continued)

23. 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.

The Group has provided a number of securities in respect of decommissioning liabilities associated with field developments owned, or partly owned by Spirit Energy and its subsidiaries. These securities are provided to fellow partners and previous owners of these fields, who may be liable for Spirit Energy's share of the decommissioning costs, in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2017, £694 million of letters of credit and on demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet.

As additional assets are developed or acquired, additional securities may be provided.

(c) Contingent liabilities

The Group has no material contingent liabilities.

24. SOURCES OF FINANCE

(a) Capital structure

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

31 December	2017 £m	2016 £m
Net debt	2,596	3,473
Equity	2,699	2,666
Capital	5,295	6,139

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 three to five 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. Borrowings is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through issuance of commercial paper. 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 under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2017 (and 2016). BGIL's capital management policy and plan is subject to review and approval by BGIL's board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms a part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

In the period from 2015-2017, the Group has reduced its overall levels of net debt, in accordance with its strategic objectives and financial framework. This has resulted in an increase in overall levels of cash held. The Group regularly reviews its cash and gross debt positions and considers opportunities for early retirement of debt in order to maintain a more efficient balance sheet.

(b) Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. 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 net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2017, the Group had undrawn committed credit facilities of £3,530 million (2016: £4,497 million) and £2,664 million (2016: £1,881 million) of unrestricted cash and cash equivalents. 238% (2016: 186%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 10.8 years (2016: 11.6 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 24(c) for the movement in cash posted or received as collateral.

24. SOURCES OF FINANCE

The relatively high level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Governance section – Other Statutory Information, on page 100.

(c) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, 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, finance leases and interest accruals, net of related deposits columns shown below are the assets and liabilities that give rise to financing cash flows.

	Cash and cash equivalents, net of bank overdrafts (restated) (i) (ii) (iii) £m	Cash posted/ (received) as collateral (iv) £m	Current and non-current securities (v) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (restated) (i) £m	Derivatives (restated) (i) £m	Net debt (restated) (i) £m
1 January 2016	860	535	244	(6,468)	82	(4,747)
Net cash inflow from sale of securities (vi)	28	–	(28)	–	–	–
Cash outflow from payment of capital element of finance leases	(50)	–	–	50	–	–
Cash outflow from repayment of borrowings	(427)	–	–	427	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vii)	1,700	(177)	–	–	–	1,523
Revaluation	–	–	8	(25)	199	182
Financing interest paid	(204)	–	–	343	10	149
Increase in interest payable and amortisation of borrowings	–	–	–	(351)	–	(351)
Acquisition of businesses	–	32	–	(6)	–	26
New finance lease agreements	–	–	–	(32)	–	(32)
Exchange adjustments	53	106	8	(390)	–	(223)
31 December 2016	1,960	496	232	(6,452)	291	(3,473)
Net cash outflow from purchase of securities	(2)	–	2	–	–	–
Cash outflow from payment of capital element of finance leases	(45)	–	–	45	–	–
Cash outflow from repayment of borrowings	(226)	–	–	226	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vii)	1,393	(136)	–	–	–	1,257
Revaluation	–	–	4	36	23	63
Financing interest paid	(318)	–	–	322	(48)	(44)
Increase in interest payable and amortisation of borrowings	–	–	–	(328)	–	(328)
Acquisition of businesses	–	–	–	(66)	–	(66)
New finance lease agreements	–	–	–	(53)	–	(53)
Exchange adjustments	(25)	(24)	(2)	99	–	48
31 December 2017	2,737	336	236	(6,171)	266	(2,596)

(i) Comparatives have been re-presented to be consistent with the current year presentation where the cash flow related to financing interest has been separately disclosed in accordance with the amendment to IAS 7: 'Statement of cash flows', which has been adopted this year.

(ii) Cash and cash equivalents includes £200 million (2016: £155 million) of restricted cash, mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group. This includes cash totalling £65 million (2016: nil) within the Spirit Energy business that is not restricted by regulation but is managed by its own treasury department.

(iii) Cash and cash equivalents are net of £127 million bank overdrafts (2016: £76 million). This is offset by a corresponding gross up in current borrowings.

(iv) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted as at 31 December 2017, £29 million (2016: £21 million) is included within trade and other payables, £253 million (2016: £307 million) within trade and other receivables, and £112 million (2016: £210 million) has been settled against net derivative financial liabilities. The items to which the cash posted or received as collateral under margin and collateral agreements relate are not included within net debt.

(v) Securities balances include £128 million (2016: £130 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £108 million (2016: £102 million) of available-for-sale financial assets. The Group has posted £29 million (2016: £29 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(vi) Includes sale of shares in Enercare Inc. which were sold in 2016 for consideration of C\$61 million (£31 million).

(vii) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).

Notes to the Financial Statements (continued)

24. SOURCES OF FINANCE

(d) Borrowings, finance leases and interest accruals summary

31 December	Coupon rate %	Principal m	Current £m	Non-current £m	2017 Total £m	Current £m	Non-current £m	2016 Total £m
Bank overdrafts			(127)	–	(127)	(76)	–	(76)
Bank loans (> 5 year maturity)			–	(138)	(138)	–	(148)	(148)
Bonds (by maturity date):								
14 April 2017	Floating	US\$200	–	–	–	(162)	–	(162)
19 September 2018 ⁽ⁱ⁾	7.000	£400	(411)	–	(411)	–	(425)	(425)
1 February 2019	3.213	€100	–	(89)	(89)	–	(85)	(85)
25 September 2020	Floating	US\$80	–	(59)	(59)	–	(65)	(65)
22 February 2022	3.680	HK\$450	–	(43)	(43)	–	(47)	(47)
10 March 2022 ⁽ⁱ⁾	6.375	£500	–	(531)	(531)	–	(541)	(541)
16 October 2023 ⁽ⁱ⁾	4.000	US\$750	–	(563)	(563)	–	(622)	(622)
4 September 2026 ⁽ⁱ⁾	6.400	£200	–	(225)	(225)	–	(228)	(228)
16 April 2027	5.900	US\$70	–	(51)	(51)	–	(56)	(56)
13 March 2029 ⁽ⁱ⁾	4.375	£750	–	(751)	(751)	–	(751)	(751)
5 January 2032 ⁽ⁱⁱ⁾	Zero	€50	–	(57)	(57)	–	(54)	(54)
19 September 2033	7.000	£770	–	(763)	(763)	–	(763)	(763)
16 October 2043	5.375	US\$600	–	(437)	(437)	–	(480)	(480)
12 September 2044	4.250	£550	–	(537)	(537)	–	(537)	(537)
25 September 2045	5.250	US\$50	–	(36)	(36)	–	(40)	(40)
10 April 2075 ^{(i) (iii)}	5.250	£450	–	(455)	(455)	–	(457)	(457)
10 April 2076 ^(iv)	3.000	€750	–	(664)	(664)	–	(637)	(637)
			(411)	(5,261)	(5,672)	(162)	(5,788)	(5,950)
Obligations under finance leases ^(v)			(49)	(192)	(241)	(39)	(194)	(233)
Interest accruals			(120)	–	(120)	(121)	–	(121)
			(707)	(5,591)	(6,298)	(398)	(6,130)	(6,528)

(i) Bonds or portions of bonds maturing in 2018, 2022, 2023, 2026, 2029 and 2075 have been designated in a fair value hedge relationship.

(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.

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

(iv) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.

(v) Contingent rents paid under finance lease obligations during the year were £39 million (2016: £37 million).

25. SHARE CAPITAL

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought itself, principally as part of the share repurchase programme.

Allotted and fully paid share capital of the Company

31 December	2017 £m	2016 £m
5,642,344,165 ordinary shares of 6 ¹⁴ / ₁₀₀ pence each (2016: 5,539,363,372)	348	342

During the year 103 million new ordinary shares were issued at an average price of 191.9 pence for the scrip dividends, total value of £198 million.

The closing price of one Centrica ordinary share on 31 December 2017 was 137.3 pence (2016: 234.1 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares		Treasury shares	
	2017 million shares	2016 million shares	2017 million shares	2016 million shares
1 January	9.0	6.0	50.8	58.7
Shares purchased	5.7	6.8	–	–
Treasury shares placed into trust	1.2	1.4	(1.2)	(1.4)
Shares released to employees on vesting	(10.6)	(5.2)	(7.5)	(6.5)
31 December ⁽ⁱ⁾	5.3	9.0	42.1	50.8

(i) The closing balance in the treasury and own share reserve of own shares was £12 million (2016: £23 million) and treasury shares was £130 million (2016: £157 million).

26. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2017 and the date of this report.

Centrica Storage

On 15 January 2018, Centrica Storage was granted consent from the Oil and Gas Authority to produce indigenous gas and associated liquids from Rough, confirming transition from a storage operation into one of production on 17 January 2018.

Dividends

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £470 million) for the year ended 31 December 2017. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2018 and, subject to approval, will be paid on 28 June 2018 to those shareholders registered on 11 May 2018.

Notes to the Financial Statements Supplementary information

Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. GENERAL INFORMATION

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 2 to 62.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. These accounting policies have been consistently applied to the years presented.

Income Statement presentation

The Group Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments and items that are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described in note 2.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3, and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: revenue is recognised on the basis of energy supplied during the year. 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 is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Wholesale energy: revenue in the North America Business segment is presented on a gross basis, reflecting revenue arising from the re-trading of energy in addition to physical supply.

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within cost of sales. Cushion gas sales revenue is recognised when the gas is transferred to the customer account or sold to the market.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Upstream production: revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Power generation: revenue is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year, taking into account the industry reconciliation process for total gas and total electricity usage by supplier and related transportation, distribution, royalty costs and bought-in materials and services.

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

Cost of sales within power generation businesses includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

Financing costs

Financing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Financing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a Group financing rate representative of the weighted average borrowing rate of the Group is used (2017: 4.55%, 2016: 4.53%). Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Investment income

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

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange movements are included in the Group Income Statement for the period. In previous periods, the Group utilised net investment hedging and exchange differences on foreign currency borrowings and derivatives that provided a hedge against a net investment in a foreign entity were taken directly to equity. Upon the disposal or partial disposal of the net investment, any accumulated foreign exchange reserves related to the investment are recognised in the Group Income Statement. The Group no longer uses net investment hedging but historic exchange differences remain in equity until the disposal of the specific investments.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the dates of the initial transaction.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, joint ventures and associates are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The results of these (generally foreign) subsidiary undertakings, joint ventures and associates are translated into pounds sterling at the average rates of exchange for the relevant period. The relevant exchange rates are shown below:

Exchange rate per pound sterling (£)	Closing rate at 31 December		Average rate for the year ended	
	2017	2016	2017	31 December 2016
US dollars	1.35	1.23	1.30	1.35
Canadian dollars	1.70	1.66	1.69	1.79
Euro	1.13	1.17	1.15	1.23
Norwegian krone	11.09	10.66	10.71	11.37
Danish krone ⁽ⁱ⁾	8.39	8.72	8.52	8.58

(i) In 2016, the average rate for the Danish krone is measured over the three month period ended 31 December, being the period of ownership of Neas Energy in that period.

Notes to the Financial Statements Supplementary information (continued)

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of a non-sterling functional currency subsidiary, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 78 to 89, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market based vesting conditions.

The majority of the share-based payment charge arises from the following schemes. More information is included in the Remuneration Report on pages 78 to 89.

Deferred Matching Share Scheme (DMSS):

- Applicable employees: Senior Executive Group.
- From 2015 this scheme was replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and the On Track Incentive Plan (OTIP) for Senior Executives and senior management.
- Vesting period of four years, comprising bonus year and three-year performance period.
- Participants must defer between 20% and 40% of annual pre-tax bonus into scheme (deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (investment shares).
- Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over a three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Performance measured through Group and segment Economic Profit (EP) targets.
- Leaving prior to vesting date will normally mean forfeiting rights to deferred and matching shares.

Long Term Incentive Scheme (LTIS):

- Applicable employees: senior management.
- From 2015 this scheme was replaced by the AIP and LTIP for Executive Directors and OTIP for Senior Executives and senior management.
- Vesting period of three years following grant date.
- Grants after 2012: number of shares calculated according to EPS, Group EP, total shareholder return (TSR) and non-financial KPIs.
- Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Leaving prior to vesting date will normally mean forfeiting rights.

Share Award Scheme (SAS):

- Applicable employees: senior and middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years.
- Leaving prior to vesting date will normally mean forfeiting rights.

On Track Incentive Plan (OTIP):

- Applicable employees: Senior Executives, senior and middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years.
- Leaving prior to vesting date will normally mean forfeiting rights to the unvested share awards.

Long Term Incentive Plan (LTIP):

- Applicable employees: Executive Directors.
- Shares vest subject to continued employment and performance conditions after a three-year period.
- Number of shares calculated according to EPS, Group EP and non-financial KPIs.
- Mandatory holding period of two years following vesting during which claw back applies.
- Leaving prior to vesting date will normally mean forfeiting rights.

Annual Incentive Plan (AIP):

- Applicable employees: Senior Executive Group.
 - Replaces the previous Annual Incentive Scheme (AIS), Deferred and Matching Share Scheme (DMSS) and Long Term Incentive Scheme (LTIS).
 - Designed to incentivise and reward the achievement of demanding financial and individual strategically aligned performance obligations.
 - Half of the award is paid in cash. The other half is paid in shares which vest immediately but are deferred in trust, two thirds of which are released after three years and the remaining third after four years.
 - Dividends payable during restricted periods.
 - If performance is not deemed satisfactory, an individual's payment may be reduced or forfeited.
-

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sharesave:

- Applicable employees: All UK and Ireland employees.
- Options granted with a fixed exercise price equal to 80% of the average market price of the shares for three days prior to invitation which is three to four weeks prior to the grant date.
- Employees pay a monthly fixed amount into a savings account and may elect to save over three or five years. At the end of the savings period, employees have six months to exercise their options or withdraw the saved funds.

For each of the schemes, the fair value is measured using the market value on the date of the grant.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at FVLCD. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interests and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is not recognised separately, but is shown under 'Interests in joint ventures and associates' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

Acquisitions of joint operations that meet the definition of a business as defined in IFRS 3 are accounted for as a business combination.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads.

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

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

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

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

The useful economic lives for the principal categories of intangible assets are as follows:

Customer relationships and other contractual assets	Up to 20 years
Strategic identifiable acquired brands	Indefinite
Application software	Up to 15 years

Notes to the Financial Statements Supplementary information (continued)

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

EU Emissions Trading Scheme and renewable obligation certificates

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Group Income Statement. The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to PP&E. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared annually on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Group has significant influence but not control or joint control, which are generally investments in which the Group holds between 20% and 50% of the voting rights. The Group's joint ventures and associates (as defined in note 6) are accounted for using the equity method.

Under the equity method, investments are carried at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in value in individual investments. The Group Income Statement reflects the Group's share of the results of operations after tax and interest. Adjustments are made to the results and net assets of the joint ventures and associates where necessary to ensure consistency with the accounting policies adopted by the Group. Upon initial acquisition goodwill may arise and is recognised within 'Interests in joint ventures and associates' in the Group Balance Sheet.

The Group's interests in joint operations (gas and oil exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the gas and oil fields that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not as principal (as the contracts entered into do not convey control to the parties). Accordingly, the Group recognises its interests in these arrangements as outlined above except that it presents gross liabilities and gross receivables of joint operations (including amounts due to or from non-operating partners) in the Group Balance Sheet in accordance with the netting rules of IAS 32.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

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

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

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	Five to 20 years
Equipment and vehicles	Three to 10 years
Power generation assets	Up to 30 years
Gas storage assets ⁽ⁱ⁾	Up to 40 years

(i) The depreciation policy for the Group's UK Storage assets has remained unchanged during 2017. However, following the granting of consent from the Oil and Gas Authority confirming transition from a storage operation into one of production on 17 January 2018, this policy will change to be consistent with the unit of production method used by production assets in 2018.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as for owned assets or, where shorter, the lease term.

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

Impairment assumptions

Details of the approach taken to impairment are included in note 7(c). The following provides further information on the assumptions used in the VIU calculations:

VIU – Key assumptions used

The VIU calculations use pre-tax cash flow projections based on the Group's Board-approved business plans for five years (except for Central Power Generation CCGTs). The Group's business plans are based on past experience and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(a) VIU – Growth rates and discount rates

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

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are provided in the table below:

	UK Home %	UK Business %	Ireland %	North America Home (i) (ii) %	North America Business (i) (ii) %	Connected Home (ii) (iii) %	Distributed Energy & Power (ii) (iii) %	Energy Marketing & Trading %
2017								
Growth rate to perpetuity	2.6	2.6	1.3	2.1/2.0	2.1/2.0	2.1/2.6	2.1/2.6	2.6
Pre-tax discount rate	7.3	7.3	7.2	7.9/7.5	7.9/7.5	10.4/9.5	10.4/9.5	9.0
2016								
Growth rate to perpetuity	1.9	1.9	1.5	2.2/2.1	2.2/2.1	2.2/1.9	2.2/1.9	1.9
Pre-tax discount rate	7.4	7.4	7.2	7.9/7.5	7.9/7.5	10.5/9.6	10.5/9.6	9.6

(i) US/Canada respectively.

(ii) The US discount rates used for impairment testing purposes were calculated prior to the reduction in US federal tax rates. The reduction in tax rates would not have changed the impairment conclusions.

(iii) US/UK respectively.

Notes to the Financial Statements Supplementary information (continued)

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) VIU – Inflation rates

Inflation rates used in the business plan were based on a blend of a number of publicly available inflation forecasts for the UK, Canada, the Republic of Ireland and the US. Inflation rates used for the VIU calculations were as follows: UK 2.6% (2016: 2.0%); Canada 2.0% (2016: 2.1%); Republic of Ireland 1.5% (2016: 1.5%); and the US 2.3% (2016: 2.2%).

(c) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are gross margin, revenues and operating costs. Each of these assumptions is tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
UK Home	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and cost of goods inflation. For the Services business, future sales and related gross margins are based on planned future product sales and contract losses based upon past performance and future expectations of the competitive environment.	Existing customers: based on contractual terms. Losses are forecast based on historic data and future expectations of the market. Adjusted for: growth forecasts which are based on sales and marketing activity, recent customer acquisitions and the current economic environment in the UK. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected efficiency programme. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
UK Business	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and cost of goods inflation.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales, marketing activity, recent customer acquisitions and the current economic environment in the UK. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
Ireland	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions, inflation and transportation costs.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales, marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current Irish market environment.
North America Home	Existing customers: based on contractual terms and gross margins achieved in the period leading up to the date of the business plan. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Adjusted for: competitor data. For the Services business, adjustments are made for current economic conditions and the status of the housing market as appropriate.	Market share: average percentage immediately prior to business plan. For the Services business, the market share is based on historical growth trends and planned sales activities by individual market sectors. Adjusted for: expectations of growth or decline to reflect competitive differences. For the Services business, adjustments are made for new product offerings and continued penetration into new markets.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect expected savings. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.
North America Business	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved historically.	Market share: based on historical growth trends and planned sales activities by individual market sector. Adjusted for: prices based on contractual terms for fixed price contracts and forward market curves for both gas and electricity in Canada and the US.	Wages: projected headcount in line with expected activity. Salary increases based on forecast salary growth. Future developments: reduction in costs to reflect expected savings. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CGU	Gross margin	Revenues	Operating costs
Connected Home	<p>Future sales: based on gross margins achieved in the period leading up to the date of the business plan.</p> <p>Adjusted for: recurring revenue subscriptions by driving service-led propositions.</p>	<p>Market share: based on current growth trends and planned sales activities by individual market sector.</p> <p>Adjusted for: new product offerings and continued penetration into new markets.</p> <p>One-off revenues based on current external rates. Recurring revenues based on expected package price.</p>	<p>Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations.</p> <p>Future developments: costs to increase in line with customer growth, adjusted to reflect planned business process efficiencies.</p> <p>Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK and US environment.</p>
Distributed Energy & Power	<p>Existing customers: based on contractual terms.</p> <p>New customers and renewals: based on gross margins in the period leading up to the date of the business plan and estimates of future profitability.</p>	<p>Customer contracts: customer book immediately prior to business plan.</p> <p>Adjusted for: growth forecasts.</p>	<p>Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations.</p> <p>Credit losses: estimated bad debt and allowances based on historical collection rights and trends which are evaluated by the business.</p>
Energy Marketing & Trading	<p>Asset-backed business:</p> <p>Existing customers: based on contractual terms.</p> <p>New customers and renewals: based on gross margins in the period leading up to the date of the business plan and estimates of future profitability.</p> <p>Trading business:</p> <p>Existing and new markets: management's estimate of future trading performance.</p>	<p>Asset-backed business: customer book immediately prior to business plan.</p> <p>Adjusted for: growth forecasts.</p>	<p>Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Bonuses: in line with expected business performance.</p> <p>Future development: increase in costs to support growth forecasts, adjusted for planned business process efficiencies.</p>
Central Power Generation	Based on forward commodity prices and forecasts of maintenance, grid connection and transportation costs, and balancing system charges for the station life.	Based on forward commodity prices and agreed contracted capacity rates for the station life.	Based on latest Board approved forecasts for the station life.

Overlift and underlift

Off-take arrangements for gas and oil produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables or trade and other receivables respectively, and is measured at market value, with movements in the period recognised within cost of sales.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts, loans and other borrowings within current liabilities.

Lease payments are apportioned between finance charges and the reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

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

Inventories

Inventories of finished goods are valued at the lower of cost or estimated net realisable value after allowance for redundant and slow-moving items. The cost of inventories includes the purchase price plus costs of conversion incurred in bringing the inventories to their present location and condition.

Inventory of gas in storage is valued either on a weighted average cost basis or at fair value less any costs to sell depending on the business model for holding the inventory. Changes in fair value less costs to sell are recognised in the Group Income Statement.

Notes to the Financial Statements Supplementary information (continued)

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Group Income Statement within financing costs.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and the Directors are committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post-employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in the Group Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time, is recognised in the Group Income Statement within net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are recognised in the Group Income Statement as they fall due.

Provisions

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

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Group Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice. Each item is considered separately and on a basis that provides the better prediction of the outcome. See note 9 for further detail on uncertain tax provisions.

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

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are initially recognised at fair value, which is usually the original invoice amount, and are subsequently held at amortised cost using the effective interest method less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

(b) Trade payables

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

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. Cash and cash equivalents are presented net of outstanding bank overdrafts where there is a legal right of set off and, for the Group's cash pooling arrangements, to the extent the Group expects to settle its subsidiaries' year-end account balances on a net basis.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

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

(f) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. They are recognised initially at fair value in the Group Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Group Statement of Comprehensive Income, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Group Income Statement for the year. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Group Income Statement.

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in the Group Income Statement. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Group Income Statement.

Impairment losses recognised in the Group Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Group Income Statement. Impairment losses recognised in the Group Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss

The Group holds investments in gilts which it designates at fair value through profit or loss. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within investment income or financing costs.

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IAS 39. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Notes to the Financial Statements Supplementary information (continued)

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rates, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 52 to 62 and in note S3.

The accounting treatment of derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines. Certain derivative instruments used for hedging purposes are designated in hedge accounting relationships as described by IAS 39. In order to qualify for hedge accounting, the effectiveness of the hedge must be reliably measurable and documentation describing the formal hedging relationship must be prepared at the point of designation. The hedge must be highly effective in achieving its objective. The Group also holds derivatives that are used for hedging purposes which are not designated in hedge accounting relationships and are held for trading.

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract that significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement.

(i) Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

Nuclear activity

The Group's investment in Lake Acquisitions Limited ('Nuclear') is accounted for as an associate. The following accounting policies are specific to this nuclear activity.

(a) Fuel costs – nuclear front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services, and fuel element fabrication. All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced gas-cooled reactors (AGR)

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise of a loading related cost per tonne of uranium and a rebate/surcharge to this cost which is dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised water reactor (PWR)

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and are charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation

The majority of the cost of the nuclear fleet is depreciated from the date of the Group acquiring its share of the fleet on a straight-line basis, with remaining depreciable periods currently of up to 18 years.

Other expenditure including amounts spent on major inspections and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is three years and for the PWR power station is 18 months.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, the former British Energy Group agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables

The UK Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities (apart from a small timing difference due to timing of receipts from NLF).

(f) Nuclear liabilities

Nuclear liabilities represent provision for liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown

Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are fully provided for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long-term liability.

S3. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management processes are designed to identify, manage and mitigate these risks.

Further detail on the Group's overall risk management processes is included within the Strategic Report – Principal Risks and Uncertainties on pages 52 to 62.

Commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes.

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

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy. Downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates and interest rates). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

(a) Commodity price risk management

The Group is exposed to commodity price risk in its energy procurement and supply activities, production, generation and trading operations and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. The Group uses Profit at Risk (PaR) limits to control exposures to market prices. These are complemented by other limits including Value at Risk (VaR), volumetric or stop-loss limits to control risk around trading activities.

(i) Energy price exposed business activities

The Group's price exposed business activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions primarily transacted with the intent of securing gas and power for the Group's supply customers, from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group's commodity price risk exposure in its business activities is driven by the cost of procuring gas and electricity to serve its supply customers and selling gas, oil and electricity from its upstream production and generation, which varies with wholesale commodity prices. The primary risk is that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group's supply activities are also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including the weather, energy consumption changes, customer attrition and the economic climate. There is also risk associated with ensuring that there is sufficient commodity available to secure supply to customers. The Group's production and generation activities are also exposed to volumetric risk in the form of uncertain production profiles.

In order to manage the exposure to market prices associated with the Group's business operations the Group uses a specific set of limits (including VaR and PaR) established by the Board, and sub-delegated downwards through the delegation lines to the commercial leaders.

PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, regular stress and scenario tests are performed to evaluate the impact on the portfolio of possible substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy price exposed business portfolio. Only certain of the Group's energy contracts constitute financial instruments under IAS 39 (note S6).

Notes to the Financial Statements Supplementary information (continued)

S3. FINANCIAL RISK MANAGEMENT

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, sales and purchase contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy price exposed business activities to commodity price risk according to IFRS 7: 'Financial instruments: disclosures'. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and supply contracts that are outside the scope of IAS 39 are monitored for internal risk management purposes; only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2017 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation. VaR assumes that historical price behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure). IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes items that are not financial instruments, such as the Group's net investments in international operations as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group has been increasing its international presence through acquisition and the primary functional currencies remain pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian krone in Norway, Danish krone in Denmark and euros in the Netherlands and the Republic of Ireland. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement, production and generation activities, where many transactions are denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt or entered into foreign currency loans, primarily in US dollars, euros, Japanese yen and Hong Kong dollars.

It is the Group's policy to hedge material transactional exposures using derivatives to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2017, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2016: nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pound sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where appropriate, subject to certain parameters, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is managed by the Group Treasury function and monitored by the Chief Financial Officer.

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

The return generated on the Group's cash balance is also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

(d) Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2017, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2017, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

S3. FINANCIAL RISK MANAGEMENT

The sensitivity analysis has been prepared based on 31 December 2017 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2017 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced. This is because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

(i) Transactional currency risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in foreign exchange rates. The Group deems 10% movements to US dollar, Canadian dollar and euro currency rates relative to pounds sterling to be reasonably possible. The impact of such movements on profit and equity, both before and after taxation, is immaterial.

(ii) Interest rate risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK, US and euro interest rates to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial.

(iii) Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

Energy prices	2017		2016	
	Base price (i)	Reasonably possible change in variable (ii) %	Base price (i)	Reasonably possible change in variable (ii) %
UK gas (p/therm)	48	+/-11	49	+/-15
UK power (£/MWh)	45	+/-7	46	+/-14
UK emissions (€/tonne)	8	+/-18	7	+/-23
UK oil (US\$/bbl)	62	+/-10	58	+/-14
North American gas (US cents/therm)	28	+/-4	37	+/-4
North American power (US\$/MWh)	32	+/-6	32	+/-6

Incremental profit/(loss)	2017	2016
	Impact on profit (ii) £m	Impact on profit (ii) £m
UK energy prices (combined) – increase/(decrease)	68/(72)	82/(86)
North American energy prices (combined) – increase/(decrease)	238/(238)	117/(117)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.

(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

Credit risk management

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

Notes to the Financial Statements Supplementary information (continued)

S3. FINANCIAL RISK MANAGEMENT

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2017			2016		
	Derivative financial instruments with positive fair values £m	Receivables from treasury, trading and energy procurement counterparties £m	Cash and cash equivalents £m	Derivative financial instruments with positive fair values £m	Receivables from treasury, trading and energy procurement counterparties £m	Cash and cash equivalents £m
AAA to AA	15	78	2,024	8	83	1,118
AA- to A-	687	379	799	918	532	878
BBB+ to BBB-	465	279	27	673	317	37
BB+ to BB-	76	228	-	117	144	3
B+ or lower	82	59	-	50	76	-
Unrated ⁽ⁱ⁾	65	44	14	107	90	-
	1,390	1,067	2,864	1,873	1,242	2,036

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

Details of how credit risk is managed across the asset categories are provided below:

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist (see note S6 for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See note 24(c) for details of cash posted or received under margin or collateral agreements.

100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions.

IFRS 7 requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39. As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. See note 24(b) for further information.

S3. FINANCIAL RISK MANAGEMENT

Maturity profiles

Maturities of derivative financial instruments, provisions, borrowings and finance leases are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

Due for payment 2017	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(183)	(56)	(46)	(3)	1	4
Gross energy procurement contracts and other derivative buy trades carried at fair value ⁽ⁱ⁾	(4,160)	(2,953)	(2,585)	(2,183)	(1,940)	(5,875)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(3,020)	(572)	(64)	(564)	(46)	(63)
Inflow	3,004	566	57	688	43	101
Financial liabilities within provisions	(99)	(39)	(33)	(23)	(25)	(34)
Borrowings (bank loans, bonds, overdrafts and interest)	(817)	(350)	(317)	(923)	(778)	(6,153)
Finance leases: ⁽ⁱⁱ⁾						
Minimum lease payments	(60)	(64)	(65)	(54)	(13)	(12)
Capital elements of leases	(49)	(56)	(60)	(52)	(12)	(12)

Due for payment 2016	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(143)	(84)	(27)	(19)	(3)	3
Gross energy procurement contracts and other derivative buy trades carried at fair value ^{(i) (iii)}	(5,370)	(3,281)	(2,821)	(2,665)	(2,271)	(7,728)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(6,205)	(1,086)	(191)	(684)	(928)	(113)
Inflow	6,308	1,150	187	840	1,078	146
Financial liabilities within provisions	(229)	(50)	(25)	(22)	(22)	(58)
Borrowings (bank loans, bonds, overdrafts and interest)	(534)	(694)	(353)	(328)	(913)	(7,123)
Finance leases: ⁽ⁱⁱ⁾						
Minimum lease payments	(52)	(53)	(54)	(56)	(46)	(6)
Capital elements of leases	(39)	(43)	(47)	(53)	(45)	(6)

(i) Proprietary energy trades are excluded from this maturity analysis as we do not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date. See note 19 for further details.

(ii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.

(iii) The maturity profile of gross energy procurement contracts and related derivatives carried at fair value for 2016 is restated to exclude the effect of proprietary energy trades.

Notes to the Financial Statements Supplementary information (continued)

S4. OTHER EQUITY

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve (restated) (i) £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Available- for-sale reserve (AFS) £m	Treasury and own shares reserve £m	Share- based payments reserve £m	Merger, capital redemption and other reserves £m	Total (restated) (i) £m
1 January 2016	(13)	(562)	(592)	23	(198)	93	493	(756)
Revaluation of available-for-sale securities	-	-	-	9	-	-	-	9
Transfer of available-for-sale reserve to Group Income Statement	-	-	-	(5)	-	-	-	(5)
Actuarial loss	-	-	(1,174)	-	-	-	-	(1,174)
Employee share schemes:								
Increase in own shares	-	-	-	-	(17)	-	-	(17)
Exercise of awards	-	-	-	-	35	(32)	-	3
Value of services provided	-	-	-	-	-	46	-	46
Cash flow hedges:								
Net gains	161	-	-	-	-	-	-	161
Transferred to income and expense	(129)	-	-	-	-	-	-	(129)
Transferred to assets and liabilities	(4)	-	-	-	-	-	-	(4)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	(9)	-	65	-	-	-	-	56
Taxation on above items	(3)	-	194	(1)	-	-	-	190
Recycled to Group Income Statement on disposal	5	-	-	-	-	-	-	5
Exchange adjustments	-	513	(7)	-	-	-	-	506
31 December 2016	8	(49)	(1,514)	26	(180)	107	493	(1,109)
Revaluation of available-for-sale securities	-	-	-	6	-	-	-	6
Actuarial gain	-	-	222	-	-	-	-	222
Employee share schemes:								
Increase in own shares	-	-	-	-	(11)	-	-	(11)
Exercise of awards	-	-	-	-	49	(54)	-	(5)
Value of services provided	-	-	-	-	-	47	-	47
Cash flow hedges:								
Net gains	24	-	-	-	-	-	-	24
Transferred to income and expense	(34)	-	-	-	-	-	-	(34)
Transferred to assets and liabilities	(7)	-	-	-	-	-	-	(7)
Share of other comprehensive income of joint ventures and associates, net of taxation	-	-	43	-	-	-	-	43
Taxation on above items	1	-	(38)	(1)	-	-	-	(38)
Acquisition of business	-	-	-	-	-	-	24	24
Recycled to Group Income Statement on disposal (note 12)	10	8	-	-	-	-	-	18
Exchange adjustments	-	(131)	1	-	-	-	-	(130)
31 December 2017	2	(172)	(1,286)	31	(142)	100	517	(950)

(i) Prior year comparatives have been restated to separately show amounts recycled to Group Income Statement on disposal.

Merger, capital redemption and other reserves

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

On 8 December 2017, the Group's existing Exploration & Production business was combined with that of Bayerngas Norge AS to form the Spirit Energy business. The Group acquired 69% of the Spirit Energy business and Bayerngas Norge's former shareholders acquired 31%. The non-controlling interest established on acquisition has been based on its share of the carrying value of the combined business, with the other reserve representing the difference between the fair value and this carrying value. See note 12(a).

S4. OTHER EQUITY

In accordance with the Companies Act 1985, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. Up to 31 December 2017 the cumulative nominal value of shares repurchased and subsequently cancelled was £26 million (2016: £26 million).

Own shares reserve

The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve

Treasury shares are acquired equity instruments of the Company.

Share-based payments reserve

The share-based payments reserve reflects the obligation to deliver shares to employees under the Group's share schemes in return for services provided.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange adjustments on the translation of the Group's foreign operations. Historically the Group has hedged its net investments in these foreign operations and the opening balance of the foreign currency translation reserve includes exchange translation adjustments on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Note S5 provides further detail on historical net investment hedges.

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Group Income Statement or Group Balance Sheet as and when the hedged item affects the Group Income Statement or Group Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. Note S5 provides further detail on cash flow hedging.

S5. HEDGE ACCOUNTING

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or, in previous periods, hedges of net investments in foreign operations.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were as follows:

	Assets £m	2017 Liabilities £m	Assets £m	2016 Liabilities £m
31 December				
Fair value hedges	128	(6)	158	(5)
Cash flow hedges	162	(16)	151	(3)

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Fair value hedges

A derivative is designated as a hedging instrument and its relationship to a recognised asset or liability is classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Gains or losses arising on fair value hedges net of gains or losses arising on hedged items attributable to the hedged risk for the years ended 31 December 2017 and 31 December 2016 were immaterial.

Cash flow hedges

A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

Notes to the Financial Statements Supplementary information (continued)

S5. HEDGE ACCOUNTING

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve in the Group Statement of Comprehensive Income are transferred to the Group Income Statement in the same period in which the highly probable forecast transaction affects income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Group Income Statement.

Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging is immaterial and is recognised immediately in the Group Income Statement.

Net investment hedges

Historically the Group engaged in net investment hedging (NIH) whereby it would obtain foreign currency debt issued in the same currency as its net investment in a foreign operation. Such hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity; any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. In 2009 the Group ceased to NIH, however the opening balance of the foreign currency translation reserve includes cumulative exchange translation adjustments on borrowings and derivatives classified as a NIH under the requirements of IAS 39. These balances will be recycled to the Group Income Statement on disposal of the relevant foreign operation.

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

(a) Fair value hierarchy

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

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

31 December	Level 1 (i) £m	Level 2 £m	Level 3 £m	2017 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2016 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	(2)	1,014	56	1,068	81	1,350	40	1,471
Interest rate derivatives	–	128	–	128	–	158	–	158
Foreign exchange derivatives	–	194	–	194	–	244	–	244
Treasury gilts designated at fair value through profit or loss	128	–	–	128	130	–	–	130
Debt instruments	74	–	–	74	64	–	–	64
Equity instruments	31	–	3	34	34	–	4	38
Total financial assets at fair value	231	1,336	59	1,626	309	1,752	44	2,105
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(60)	(845)	(33)	(938)	(20)	(1,369)	(63)	(1,452)
Interest rate derivatives	–	(34)	–	(34)	–	(36)	–	(36)
Foreign exchange derivatives	–	(48)	–	(48)	–	(105)	–	(105)
Total financial liabilities at fair value	(60)	(927)	(33)	(1,020)	(20)	(1,510)	(63)	(1,593)

(i) Included within Level 1 energy derivative assets are liabilities of £6 million, which are presented within derivative assets on the Group Balance Sheet, as a result of being netted off the associated Level 2 trades with the same commodity/instrument type.

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Financial assets £m	2017 Financial liabilities £m	Financial assets £m	2016 Financial liabilities £m
Level 3 financial instruments				
1 January ⁽ⁱ⁾	44	(63)	(35)	(114)
Total realised and unrealised gains/(losses):				
Recognised in Group Income Statement	1	9	69	60
Purchases, sales, issuances and settlements (net)	18	(9)	6	(2)
Transfers between Level 2 and Level 3 ⁽ⁱⁱ⁾	(3)	30	4	–
Foreign exchange movements	(1)	–	–	(7)
31 December	59	(33)	44	(63)
Total gains/(losses) for the year for Level 3 financial instruments held at the end of the reporting year ⁽ⁱⁱⁱ⁾	19	(15)	89	(4)

(i) Included within the opening balance of financial assets in 2016 are £53 million of liabilities, which were presented within the derivative assets in the Group Balance Sheet at the beginning of 2016, as a result of being netted off the associated Level 2 trades with the same counterparty.

(ii) Transfers between levels are deemed to occur at the beginning of the reporting period.

(iii) £19 million gains (2016: £89 million gains) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2016: nil) were recognised in other comprehensive income. £15 million losses (2016: £4 million losses) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within exceptional items and certain re-measurements and no gains or losses (2016: nil) were recognised in other comprehensive income.

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market, with the resulting market value discounted back to present value using observable yield curves.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2017 was 1% (2016: 1%) (Europe) and 3% (2016: 3%) (North America) per annum.

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 1% (2016: 1%) (UK) and 3% (2016: 7%) (US) per annum for 2017.

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	3	3	3	3	3
North America (years)	5	Up to 5	N/A	Up to 5	3

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. Given the relative size of these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Group's profit and loss or total asset value.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside of the scope of IAS 39 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations, subject to adjustments to ensure they are compliant with IFRS 13: 'Fair value measurement'. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IAS 39, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

Notes to the Financial Statements Supplementary information (continued)

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December	Notes	Carrying value £m	Fair value £m	2017 Fair value hierarchy	Carrying value £m	Fair value £m	2016 Fair value hierarchy
Bank loans	24(d)	(138)	(203)	Level 2	(148)	(223)	Level 2
Bonds Level 1	24(d)	(5,573)	(6,311)	Level 1	(5,849)	(6,651)	Level 1
Level 2	24(d)	(99)	(126)	Level 2	(101)	(133)	Level 2
Obligations under finance leases	24(d)	(241)	(250)	Level 2	(233)	(251)	Level 2

Financial liabilities

The fair values of bonds classified as Level 1 within the fair value hierarchy are calculated using quoted market prices. The fair values of Level 2 bonds and bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts, short-term loans and commercial paper are assumed to equal their book values due to the short-term nature of these amounts. The fair values of obligations under finance leases have been determined by discounting contractual cash flows with reference to the Group's cost of borrowing.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

(d) Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

31 December 2017	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i)		
				Financial instruments £m	Collateral £m	Net amount £m
Derivative financial assets	8,656	(7,266)	1,390	(234)	(29)	1,127
Derivative financial liabilities	(8,286)	7,266	(1,020)	234	282	(504)
			370			623
Balances arising from commodity contracts:						
Accrued energy income	6,028	(3,753)	2,275	(92)	–	2,183
Accruals for commodity costs	(5,529)	3,753	(1,776)	92	–	(1,684)
Cash and financing arrangements:						
Cash and cash equivalents	2,880	(16)	2,864	(127)	–	2,737
Bank loans and overdrafts	(281)	16	(265)	127	–	(138)
Securities	236	–	236	–	(29)	207

31 December 2016	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet (i)		
				Financial instruments £m	Collateral £m	Net amount £m
Derivative financial assets	8,054	(6,181)	1,873	(513)	(21)	1,339
Derivative financial liabilities	(7,774)	6,181	(1,593)	513	336	(744)
			280			595
Balances arising from commodity contracts:						
Accrued energy income	5,452	(3,058)	2,394	(80)	–	2,314
Accruals for commodity costs	(4,605)	3,058	(1,547)	80	–	(1,467)
Cash and financing arrangements:						
Cash and cash equivalents	2,063	(27)	2,036	(76)	–	1,960
Bank loans and overdrafts	(251)	27	(224)	76	–	(148)
Securities	232	–	232	–	(29)	203

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes.

S7. FIXED-FEE SERVICE AND INSURANCE CONTRACTS

This section includes fixed-fee service (FFS) and insurance contract disclosures for services related to UK Home and North America Home.

FFS contracts in North America are entered into with home and business services customers. Insurance contracts in North America are entered into with home services customers.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL). Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until cancelled by either party; insurance contracts normally provide cover for 12 months with the option of renewal.

The contracts which protect policyholders against the risk of breakdowns result in the transfer of risk to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into. However, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under the contract terms are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- a specified number of safety and maintenance inspections are carried out as set out in the agreement (usually once a year);
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

Revenue is recognised over the life of contracts having regard to the incidence of risk, in particular the seasonal propensity of claims which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by the Group within home services and the cost of parts utilised in repair or maintenance. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year.

The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:

- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contracts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of FFS claims and insurance claims incurred during the year were £44 million (2016: £48 million) and £389 million (2016: £391 million) respectively and are included in the table below in 'Expenses relating to FFS and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date (2016: nil).

	2017 £m	2016 £m
Total revenue	974	1,177
Expenses relating to FFS and insurance contracts	(992)	(1,013)
Deferred income	(88)	(97)
Accrued income	31	29

The Group considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

Notes to the Financial Statements Supplementary information (continued)

S8. RELATED PARTY TRANSACTIONS

The Group's principal related party is its investment in Lake Acquisitions Limited, which owns the existing EDF UK nuclear fleet. The disclosures below, including comparatives, only refer to related parties that were related in the current reporting period.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

	Sale of goods and services £m	Purchase of goods and services £m	2017		Sale of goods and services £m	Purchase of goods and services £m	Amounts owed from (i) £m	Amounts owed to £m
			Amounts owed from £m	Amounts owed to £m				
Joint ventures:								
Wind farms ⁽ⁱ⁾	1	(10)	-	-	7	(80)	120	(43)
Associates:								
Nuclear	-	(527)	-	(40)	-	(617)	-	(57)
Other	-	-	-	-	4	(5)	-	-
	1	(537)	-	(40)	11	(702)	120	(100)

(i) Disposed on 17 February 2017. See note 12(d) for further details. Transactions have only been included above up to this disposal date.

During the year, there were no material changes to commitments in relation to joint ventures and associates. During the year a provision against a receivable from one of the Group's joint ventures was charged to the Group Income Statement amounting to £1 million. No other provision for bad or doubtful debts relating to amounts owed from related parties was recognised during the year through the Group Income Statement (2016: nil). The balance of the provision at 31 December 2017 was nil (2016: nil).

At the balance sheet date, the Group committed facilities to the Lake Acquisition Group totalling £120 million, although nothing has been drawn at 31 December 2017.

Key management personnel comprise members of the Board and Executive Committee, a total of 18 individuals at 31 December 2017 (2016: 18).

Remuneration of key management personnel	2017 £m	2016 £m
Year ended 31 December		
Short-term benefits	9.8	15.8
Post-employment benefits	1.3	1.1
Share-based payments	4.8	7.8
	15.9	24.7

Remuneration of the Directors of Centrica plc	2017 £m	2016 (restated) £m
Year ended 31 December		
Total emoluments ⁽ⁱ⁾	4.0	9.7
Amounts receivable under long-term incentive schemes	1.9	-
Contributions into pension schemes	0.8	0.8

(i) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company. 2016 comparatives have been restated. Further detail is provided in the Remuneration Report on pages 78 to 89.

S9. AUDITORS' REMUNERATION

	2017 £m	2016 £m
Year ended 31 December		
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated Financial Statements ⁽ⁱ⁾	5.5	5.6
Audit of the Company's subsidiaries	1.7	1.7
Total fees related to the audit of the parent and subsidiary entities	7.2	7.3
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	1.2	1.0
Corporate finance services	-	0.4
All other services	0.8	0.8
	9.2	9.5
Fees in respect of pension scheme audits ⁽ⁱⁱ⁾	0.1	0.1

(i) Including £0.3 million (2016: £0.3 million) for the audit of the Ofgem Consolidated Segmental Statement.

(ii) The pension scheme audit continues to be performed by PricewaterhouseCoopers LLP.

S9. AUDITORS' REMUNERATION

During 2017, PricewaterhouseCoopers LLP ('PwC') ceased to hold office as auditor and following a rigorous and competitive tender process, Deloitte LLP were appointed auditors of the Group. Deloitte had been engaged to perform certain activities for the Group prior to their appointment as auditors, and before this the Group undertook a thorough review of all pre-existing arrangements. As a result of this, certain arrangements were terminated during 2016 and whilst others were permissible under all relevant regulatory requirements, the decision was taken to wind them down during the first half of 2017. The majority of fees noted in the caption 'All other services' above, relate to such transitional arrangements, which have now ceased.

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Audit Committee has approved a detailed policy defining the types of work for which the Company's auditors can tender and the approvals required. In the past, the Company's auditors have been engaged on assignments in addition to their statutory audit duties where their expertise and experience with the Group are particularly important, including due diligence reporting and corporate finance support for acquisitions and disposals.

S10. RELATED UNDERTAKINGS

The Group has a large number of related undertakings principally in the UK, US, Norway, Canada, Denmark, the Netherlands and the Republic of Ireland. These are listed below.

(a) Subsidiary undertakings

Investments held directly by Centrica plc with 100% voting rights

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Beta Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Trading Limited	Dormant	United Kingdom / A	Ordinary shares

Investments held indirectly by Centrica plc with 100% voting rights

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
1773648 Alberta Ltd.	Gas and/or oil exploration and production and/ or trading	Canada / B	Ordinary shares
Accord Energy (Trading) Limited	Dormant	United Kingdom / A	Ordinary shares
Accord Energy Limited	Dormant	United Kingdom / A	Ordinary shares
Airtron Inc.	Home and/or commercial services	United States / C	Ordinary shares
Alertme.com GmbH	Non-trading	Germany / D	Ordinary shares
Alertme.com Inc.	Energy management products and services	United States / E	Ordinary shares
Astrum Solar Inc.	Home and/or commercial services	United States / F	Ordinary shares
Atform Limited	Dormant	United Kingdom / A	Ordinary shares
AWHR America's Water Heater Rentals LLC	Home and/or commercial services	United States / C	Membership interest
Benjamin Franklin Franchising LLC	Home and/or commercial services	United States / G	Membership interest
Bord Gáis Energy Limited	Energy supply and power generation	Republic of Ireland / H	Ordinary shares
Bounce Energy Inc.	Energy supply	United States / C	Ordinary shares
Brae Canada Ltd.	Gas and/or oil exploration and production	Canada / B	Ordinary and preference shares
British Gas Energy Procurement Limited	Energy supply	United Kingdom / A	Ordinary shares
British Gas Finance Limited	Vehicle leasing	United Kingdom / A	Ordinary shares
British Gas Insurance Limited	Insurance provision	United Kingdom / A	Ordinary shares
British Gas Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas New Heating Limited	Electrical and gas installations	United Kingdom / A	Ordinary shares
British Gas Services (Commercial) Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Services Limited	Home services	United Kingdom / A	Ordinary shares
British Gas Social Housing Limited	Servicing and installation of heating systems	United Kingdom / A	Ordinary shares
British Gas Solar Limited	Dormant	United Kingdom / A	Ordinary shares
British Gas Trading Limited	Energy supply	United Kingdom / A	Ordinary shares
Business Gas Limited	Dormant	United Kingdom / A	Ordinary shares
BuyMax LLC	Home and/or commercial services	United States / G	Membership interest
Caythorpe Gas Storage Limited	Gas storage	United Kingdom / I	Ordinary shares
Centrica (IOM) Limited	Dormant	Isle of Man / J	Ordinary shares
Centrica (Lincs) Wind Farm Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Alpha Finance Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica America Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Barry Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Brigg Limited	Power generation	United Kingdom / A	Ordinary shares

Notes to the Financial Statements Supplementary information (continued)

S10. RELATED UNDERTAKINGS

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Combined Common Investment Fund Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Connected Home Canada Inc. ⁽ⁱⁱ⁾	Energy management products and services	Canada / B	Ordinary shares
Centrica Connected Home Italy Srl ^{(ii) (iii)}	Energy management products and services	Italy / K	Ordinary shares
Centrica Connected Home Limited ⁽ⁱⁱ⁾	Energy management products and services	United Kingdom / A	Ordinary shares
Centrica Connected Home US Inc. ⁽ⁱⁱ⁾	Energy management products and services	United States / C	Ordinary shares
Centrica Delta Limited	In liquidation	Isle of Man / L	Ordinary shares
Centrica Directors Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Distributed Generation Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Energy (Trading) Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Marketing Limited	Wholesale energy trading	United Kingdom / A	Ordinary shares
Centrica Energy Operations Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Renewable Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Energy Tolling BV	Non-trading	Netherlands / M	Ordinary shares
Centrica Engineers Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Finance (Canada) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance (Scotland) Limited	Holding company	United Kingdom / N	Ordinary shares
Centrica Finance (US) Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Finance Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Finance Norway Limited	Group financing	Jersey / O	Ordinary shares
Centrica Gamma Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica HoldCo GP LLC	Holding company	United States / C	Membership interest
Centrica Ignite GP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica Ignite LP Limited	Investment company	United Kingdom / A	Ordinary shares
Centrica India Offshore Private Limited	Business services	India / P	Ordinary shares
Centrica Infrastructure Limited	Dormant	United Kingdom / N	Ordinary shares
Centrica Innovations UK Limited ⁽ⁱⁱⁱ⁾	Investment company	United Kingdom / A	Ordinary shares
Centrica Innovations US Inc. ⁽ⁱⁱⁱ⁾	Investment company	United States / C	Ordinary shares
Centrica Insurance Company Limited	Insurance provision	Isle of Man / J	Ordinary and preference shares
Centrica International BV	Group financing	Netherlands / M	Ordinary shares
Centrica International C BV	Holding company	Netherlands / M	Ordinary shares
Centrica Jersey Limited	In liquidation	Jersey / Q	Ordinary shares
Centrica KL Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica KPS Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Lake Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Leasing (KL) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica LNG Company Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica LNG UK Limited	LNG trading	United Kingdom / A	Ordinary shares
Centrica Nederland BV	Holding company	Netherlands / M	Ordinary shares
Centrica NewCo 123 Limited ^{(iii) (iv)}	Dormant	United Kingdom / A	Ordinary shares
Centrica Nigeria Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica No.12 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Nominees No.1 Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Offshore UK Limited	Gas and/or oil exploration and production	United Kingdom / I	Ordinary shares
Centrica Onshore Processing UK Limited	Dormant	United Kingdom / I	Ordinary shares
Centrica Overseas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica PB Limited	Power generation	United Kingdom / A	Ordinary shares
Centrica Pension Plan Trustees Limited	Dormant	United Kingdom / A	Limited by guarantee
Centrica Pension Trustees Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Production Limited	Dormant	United Kingdom / N	Ordinary shares
Centrica Renewable Energy Limited	Holding company	United Kingdom / A	Ordinary shares
Centrica Resources (Nigeria) Limited	Non-trading	Nigeria / R	Ordinary shares
Centrica Resources (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Resources Petroleum UK Limited	Dormant	United Kingdom / A	Ordinary shares

S10. RELATED UNDERTAKINGS

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Centrica Retail Holdings Netherlands BV	Holding company	Netherlands / M	Ordinary shares
Centrica Secretaries Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Services Limited ⁽ⁱⁱⁱ⁾	Business services	United Kingdom / A	Ordinary shares
Centrica Storage Holdings Limited	Holding company	United Kingdom / I	Ordinary shares
Centrica Storage Limited	Gas storage	United Kingdom / I	Ordinary shares
Centrica Trinidad and Tobago Limited	Business services	Trinidad and Tobago / S	Ordinary shares
Centrica Trust (No.1) Limited	Dormant	United Kingdom / A	Ordinary shares
Centrica Upstream Investment Limited	Dormant	United Kingdom / N	Ordinary shares
Centrica US Holdings Inc.	Holding company	United States / C	Ordinary shares
CH4 Energy Limited	Dormant	United Kingdom / A	Ordinary shares
CID1 Limited	Dormant	United Kingdom / A	Ordinary shares
CIU1 Limited	Dormant	United Kingdom / A	Ordinary shares
Clockwork Acquisition II Inc.	Home and/or commercial services	United States / C	Ordinary shares
Clockwork Inc.	Home and/or commercial services	United States / C	Ordinary shares
Clockwork IP LLC	Holding company	United States / C	Membership interest
Combined Power (South) Limited	Power generation	United Kingdom / A	Ordinary shares
CSA Offshore Services (Proprietary) Limited	Business services	South Africa / T	Ordinary shares
DEML Investments Limited	Holding company	Canada / U	Ordinary shares
DER Development No.10 Ltd.	Holding company	Canada / B	Ordinary shares
Direct Energy (B.C.) Limited	Energy supply and/or services	Canada / V	Ordinary shares
Direct Energy Business LLC	Energy supply and/or services	United States / C	Membership interest
Direct Energy Business Marketing LLC	Energy supply and/or services	United States / C	Membership interest
Direct Energy GP LLC	Holding company	United States / C	Membership interest
Direct Energy Holdings (Alberta) Inc.	Home and/or commercial services	Canada / B	Ordinary shares
Direct Energy HVAC Services Ltd.	Home and/or commercial services	Canada / B	Ordinary shares
Direct Energy Leasing LLC	Home and/or commercial services	United States / C	Membership interest
Direct Energy Marketing Inc.	Wholesale energy trading	United States / C	Ordinary and preference shares
Direct Energy Marketing Limited	Energy supply and/or services	Canada / U	Ordinary shares
Direct Energy Operations LLC	Energy supply and/or services	United States / C	Membership interest
Direct Energy Services LLC	Energy supply and/or services	United States / C	Membership interest
Direct Energy Services Retail Inc.	Home and/or commercial services	United States / C	Ordinary shares
Direct Energy US Home Services Inc.	Home and/or commercial services	United States / C	Ordinary shares
Distributed Energy Asset Solutions Limited ^(iv)	Dormant	United Kingdom / A	Ordinary shares
Distributed Energy Canada Inc. ^{(iii) (v)}	Energy Management products and services	Canada / B	Ordinary shares
Distributed Energy Customer Solutions Limited ^(iv)	Energy Management products and services	United Kingdom / A	Ordinary shares
Distributed Energy US Inc. ^{(iii) (v)}	Energy Management products and services	United States / C	Ordinary shares
Drips Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno Developments Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Plumbing Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Rod Limited	Operation of a franchise network	United Kingdom / A	Ordinary shares
Dyno-Security Services Limited	Dormant	United Kingdom / A	Ordinary shares
Dyno-Services Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Contracts Limited	Dormant	United Kingdom / A	Ordinary shares
ECL Investments Limited	Dormant	United Kingdom / A	Ordinary shares
Electricity Direct (UK) Limited	Dormant	United Kingdom / A	Ordinary shares
ENER-G Cogen International Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Combined Power Limited	Energy management products and services	United Kingdom / A	Ordinary shares
ENER-G Energia Technologia Zrt.	Energy management products and services	Hungary / W	Ordinary shares
ENER-G Italia Srl	Energy management products and services	Italy / X	Ordinary shares
ENER-G Nagykanizsa Kft	Energy management products and services	Hungary / W	Ordinary shares
ENER-G Nedalo BV	Energy management products and services	Netherlands / Y	Ordinary shares
ENER-G Power2 Limited	Holding company	United Kingdom / A	Ordinary shares
ENER-G Rudox Inc.	Energy management products and services	United States / Z	Ordinary shares
ENER-G Rudox LLC ⁽ⁱⁱⁱ⁾	Energy management products and services	United States / C	Membership interest

Notes to the Financial Statements Supplementary information (continued)

S10. RELATED UNDERTAKINGS

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
ENER-G Tehnologii Energetice Srl	Energy management products and services	Romania / AA	Ordinary shares
Energy For Tomorrow	Not-for-profit energy services	United Kingdom / A	Limited by guarantee
First Choice Power LLC	Energy supply and/or services	United States / AB	Membership interest
Flowgem Limited	Dormant	United Kingdom / A	Ordinary shares
Gateway Energy Services Corporation	Energy supply	United States / AC	Ordinary shares
GB Gas Holdings Limited	Holding company	United Kingdom / A	Ordinary shares
Generation Green Solar Limited	Dormant community benefit society	United Kingdom / A	Ordinary shares
GF One Limited ^(vii)	In liquidation	United Kingdom / AD	Ordinary shares
GF Two Limited ^(vii)	In liquidation	United Kingdom / AD	Ordinary shares
GLID Limited	Holding company	United Kingdom / A	Ordinary shares
Goldbrand Development Limited	Dormant	United Kingdom / A	Ordinary shares
Hillsserve Limited	Dormant	United Kingdom / A	Ordinary shares
Home Assistance UK Limited	Intermediary services, including claims handling and administration services	United Kingdom / A	Ordinary shares
Home Warranty Holdings Corp.	Insurance provision	United States / C	Ordinary shares
Home Warranty of America Inc. ^(viii)	Home and/or commercial services	United States / AE	Ordinary shares
Home Warranty of America Inc. ^(viii)	Home and/or commercial services	United States / AF	Ordinary shares
Io-Tahoe LLC ⁽ⁱⁱⁱ⁾	Data management	United States / C	Membership interest
Io-Tahoe UK Limited ⁽ⁱⁱⁱ⁾	Data management	United Kingdom / A	Ordinary shares
Io Tahoe Ukraine LLC ^{(iii) (ix)}	Data management	Ukraine / AG	Ordinary shares
Masters Inc.	Home and/or commercial services	United States / F	Ordinary shares
Mister Sparky Franchising LLC	Home and/or commercial services	United States / AH	Membership interest
Neas Energy A/S	Energy services and wholesale energy trading	Denmark / AI	Ordinary shares
Neas Energy GmbH	Energy services and wholesale energy trading	Germany / AJ	Ordinary shares
Neas Energy Limited	Energy services and wholesale energy trading	United Kingdom / A	Ordinary shares
Neas Energy Singapore Pte. Ltd	Energy services and wholesale energy trading	Singapore / AK	Ordinary shares
Neas Fondsmæglerselskab A/S	Non-trading	Denmark / AI	Ordinary shares
Neas Invest A/S	Dormant	Denmark / AI	Ordinary shares
Newco One Limited	Dormant	United Kingdom / A	Ordinary shares
New Millennium Academy LLC	Home and/or commercial services	United States / G	Membership interest
North Sea Infrastructure Partners Limited	Dormant	United Kingdom / N	Ordinary shares
NSIP (Holdings) Limited	Dormant	United Kingdom / N	Ordinary shares
One Hour Air Conditioning Franchising LLC	Home and/or commercial services	United States / AH	Membership interest
P.H. Jones Facilities Management Ltd	Servicing and maintenance of heating systems	United Kingdom / A	Ordinary shares
P.H Jones Group Limited	Holding company	United Kingdom / A	Ordinary shares
Panoramic Power Ltd.	Energy management products and services	Israel / AL	Ordinary shares
Pioneer Shipping Limited	Sea freight water transport	United Kingdom / A	Ordinary Shares
Quality A/C Service LLC	Home and/or commercial services	United States / AM	Membership interest
Repair and Care Limited	Dormant	United Kingdom / A	Ordinary shares
REstore Deutschland GmbH ⁽ⁱⁱⁱ⁾	Demand response aggregation	Germany / AN	Ordinary shares
REstore Flexpond UK Limited ⁽ⁱⁱⁱ⁾	Demand response aggregation	United Kingdom / AO	Ordinary shares
REstore France SAS ⁽ⁱⁱⁱ⁾	Demand response aggregation	France / AP	Ordinary shares
REstore North America LLC ⁽ⁱⁱⁱ⁾	Demand response aggregation	United States / AQ	Membership interest
REstore NV ⁽ⁱⁱⁱ⁾	Demand response aggregation	Belgium / AR	Ordinary shares
RSG Holding Corp.	Holding company	United States / C	Ordinary shares
Solar Technologies Group Limited	Dormant	United Kingdom / A	Ordinary shares
Solar Technologies Limited	Dormant	United Kingdom / A	Ordinary shares
Soren Limited	Dormant	United Kingdom / A	Ordinary shares
SuccessWare Inc.	Home and/or commercial services	United States / G	Ordinary shares
UWIN LLC	Home and/or commercial services	United States / AH	Membership interest

S10. RELATED UNDERTAKINGS

Investments held indirectly by Centrica plc with 69% voting rights

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
Bayerngas Norge AS ⁽ⁱⁱ⁾	Gas and/or oil exploration and production	Norway / AS	Ordinary shares
Bayerngas Produksjon Norge AS ⁽ⁱⁱⁱ⁾	Finance company	Norway / AS	Ordinary shares
Bowland Resources (No.2) Limited	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Bowland Resources Limited	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Elswick Energy Limited	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
NSGP (Ensign) Limited	Gas and/or oil exploration and production	Jersey / AT	Ordinary shares
Spirit Energy Danmark ApS ⁽ⁱⁱⁱ⁾ ^(x)	Gas and/or oil exploration and production	Denmark / AU	Ordinary shares
Spirit Energy Hedging Holding Limited ⁽ⁱⁱⁱ⁾	Dormant	United Kingdom / A	Ordinary shares
Spirit Energy Hedging Limited ⁽ⁱⁱⁱ⁾	Dormant	United Kingdom / A	Ordinary shares
Spirit Energy Limited ⁽ⁱⁱⁱ⁾ ^(iv)	Holding company	United Kingdom / A	Ordinary and preference shares
Spirit Energy Nederland BV ^(x)	Gas and/or oil exploration and production	Netherlands / M	Ordinary shares
Spirit Energy Norge AS ^(x)	Gas and/or oil exploration and production	Norway / AV	Ordinary shares
Spirit Energy North Sea Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Spirit Energy North Sea Oil Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / N	Ordinary shares
Spirit Energy Petroleum Danmark AS ⁽ⁱⁱⁱ⁾ ^(x) ^(x)	Gas and/or oil exploration and production	Norway / AS	Ordinary shares
Spirit Energy Production UK Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Spirit Energy Resources Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Spirit Energy Southern North Sea Limited ⁽ⁱⁱⁱ⁾ ^(x)	Gas and/or oil exploration and production	United Kingdom / AW	Ordinary shares
Spirit Energy Treasury Limited ⁽ⁱⁱⁱ⁾ ^(x)	Finance company	United Kingdom / A	Ordinary shares
Spirit Europe Ltd ⁽ⁱⁱⁱ⁾ ^(x)	Holding company	United Kingdom / AW	Ordinary shares
Spirit Infrastructure BV ^(x)	Construction, ownership and exploitation of infrastructure	Netherlands / M	Ordinary shares
Spirit North Sea Gas Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / N	Ordinary shares
Spirit Norway Limited ^(x) ^(xii)	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares
Spirit Production (Services) Limited ^(x)	Business services	United Kingdom / N	Ordinary shares
Spirit Resources (Armada) Limited ^(x)	Gas and/or oil exploration and production	United Kingdom / A	Ordinary shares

(i) For list of registered addresses, refer to note S10(d).

(ii) Centrica Connected Home Canada Inc., Centrica Connected Home Italy Srl, Centrica Connected Home Limited and Centrica Connected Home US Inc. were renamed in February 2018 to Centrica Hive Limited Canada Inc., Centrica Hive Italy Srl, Centrica Hive Limited and Centrica Hive Limited US Inc. respectively.

(iii) Acquired or established in 2017.

(iv) Centrica NewCo 123 Limited and Spirit Energy Limited performed a name exchange during the year (previously Spirit Energy Limited and Centrica NewCo 123 Limited respectively).

(v) Distributed Energy Asset Solutions Limited and Distributed Energy Customer Solutions Limited were renamed during the year (previously Centrica (BOW) Limited and Centrica (DSW) Limited respectively).

(vi) Distributed Energy Canada Inc. and Distributed Energy US Inc. were renamed in February 2018 to Centrica Business Solutions Canada Inc. and Centrica Business Solutions US Inc. respectively.

(vii) GF One Limited and GF Two Limited are 75% indirectly owned by Centrica plc.

(viii) Home Warranty of America Inc. is registered as separate entities in the states of California and Illinois.

(ix) Io Tahoe Ukraine LLC was renamed during the year (previously Rokitt Ukraine LLC).

(x) The following name changes were made during the year: Bayerngas Danmark ApS to Spirit Energy Danmark ApS; Centrica Production Nederland BV to Spirit Energy Nederland BV; Centrica Resources (Norge) AS to Spirit Energy Norge AS; Centrica North Sea Limited to Spirit Energy North Sea Limited; Centrica North Sea Oil Limited to Spirit Energy North Sea Oil Limited; Bayerngas Petroleum Danmark AS to Spirit Energy Petroleum Danmark AS; Hydrocarbon Resources Limited to Spirit Energy Production UK Limited; Centrica Resources Limited to Spirit Energy Resources Limited; Bayerngas Europe Limited to Spirit Energy Southern North Sea Limited; Maggie Treasury Co Limited to Spirit Energy Treasury Limited; Bayerngas UK Limited to Spirit Europe Ltd; Centrica Infrastructure BV to Spirit Infrastructure BV; Centrica North Sea Gas Limited to Spirit North Sea Gas Limited; Centrica Norway Limited to Spirit Norway Limited; Centrica Production (Services) Limited to Spirit Production (Services) Limited; and Centrica Resources (Armada) Limited to Spirit Resources (Armada) Limited.

(xi) Spirit Energy Petroleum Danmark AS principally operates in Denmark.

(xii) Spirit Norway Limited operated in Norway as Centrica Energi NUF until 10 December 2017. From 11 December 2017 it operated as Spirit Energy NUF.

Notes to the Financial Statements Supplementary information (continued)

S10. RELATED UNDERTAKINGS

(b) Subsidiary undertakings – partnerships held indirectly by Centrica plc with 100% voting rights

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held
CF 2016 LLP	Group financing	United Kingdom / A	Membership interest
CFCEPS LLP	Group financing	United Kingdom / A	Membership interest
CFCPP LLP	Group financing	United Kingdom / A	Membership interest
CFCPS LLP ⁽ⁱⁱ⁾	Group financing	United Kingdom / A	Membership interest
CPL Retail Energy LP	Energy supply	United States / C	Membership interest
Direct Energy LP	Energy supply	United States / AB	Membership interest
Direct Energy Partnership	Energy supply	Canada / B	Membership interest
Direct Energy Resources Partnership	Holding entity	Canada / B	Membership interest
Finance Scotland 2016 Limited Partnership	Group financing	United Kingdom / N	Membership interest
Finance Scotland CEPS Limited Partnership	Group financing	United Kingdom / N	Membership interest
Finance Scotland CPP Limited Partnership	Group financing	United Kingdom / N	Membership interest
Finance Scotland CPS Limited Partnership ⁽ⁱⁱ⁾	Group financing	United Kingdom / N	Membership interest
Ignite Social Enterprise LP	Social enterprise investment fund	United Kingdom / A	Membership interest
WTU Retail Energy LP	Energy supply	United States / C	Membership interest

(i) For list of registered addresses, refer to note S10(d).

(ii) CFCPS LLP and Finance Scotland CPS Limited Partnership were dissolved on 7 February 2018.

The following partnerships are fully consolidated into the Group Financial Statements and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate accounts for these entities:

- Finance Scotland 2016 Limited Partnership;
- Finance Scotland CEPS Limited Partnership;
- Finance Scotland CPP Limited Partnership;
- Finance Scotland CPS Limited Partnership; and
- Ignite Social Enterprise LP.

(c) Joint arrangements and associates

31 December 2017	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Indirect interest and voting rights (%)
Joint ventures ⁽ⁱⁱ⁾				
Allegheny Solar 1 LLC	Energy supply and/or services	United States / AX	Membership interest	40.0%
Celtic Array Limited	Development of an offshore windfarm	United Kingdom / A	Ordinary shares	50.0%
Eurowind Polska VI Sp z.o.o.	Operation of an onshore windfarm	Poland / AY	Ordinary shares	50.0%
Greener Ideas Limited	Development of flexible power generation sites	Republic of Ireland / AZ	Ordinary shares	50.0%
Rhiannon Wind Farm Limited	Dormant	United Kingdom / A	Ordinary shares	50.0%
Three Rivers Solar 1 LLC	Energy supply and/or services	United States / AX	Membership interest	40.0%
Three Rivers Solar 2 LLC	Energy supply and/or services	United States / AX	Membership interest	40.0%
Three Rivers Solar 3 LLC ⁽ⁱⁱⁱ⁾	Energy supply and/or services	United States / AX	Membership interest	40.0%
Vindpark Kęblowo ApS	Operation of an onshore windfarm	Denmark / BA	Ordinary shares	50.0%
Associates ⁽ⁱⁱ⁾				
Lake Acquisitions Limited	Holding company	United Kingdom / BB	Ordinary shares	20.0%
Veolia CHP Ireland Limited	Energy supply and power generation	Republic of Ireland / BC	Ordinary shares	20.0%

(i) For list of registered addresses, refer to note S10(d).

(ii) Further information on the principal joint ventures and associate investments held by the Group is disclosed in notes 6 and 14.

(iii) Acquired in 2017.

All Group companies principally operate within their country of incorporation unless noted otherwise.

S10. RELATED UNDERTAKINGS

(d) List of registered addresses

Registered address key	Address
A	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom
B	2323 32nd Avenue N.E., Suite 260, Calgary, AB T2E 6Z3, Canada
C	3411 Silverside Road, Suite 104, Tatnall Building, Wilmington, DE 19810, United States
D	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
E	1521 Concord Pike #303, Wilmington, DE 19803, United States
F	2 Wisconsin Circle #700, Chevy Chase, MD 20815, United States
G	12747 Olive Boulevard #300, Jefferson City, MO 63141, United States
H	1 Warrington Place, Dublin, 2, Republic of Ireland
I	Woodland House, Woodland Park, Hessle, HU13 0FA, United Kingdom
J	St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
K	Via Paleocapa Pietro 4, 20121, Milano, Italy
L	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man
M	Polarisavenue 39, 2132 JH Hoofddorp, Netherlands
N	IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom
O	47 Esplanade, St Helier, JE1 0BD, Jersey
P	G-74, LGF, Kalkaji, New Delhi, South Delhi, Delhi, 110019, India
Q	26 New Street, St Helier, JE2 3RA, Jersey
R	Sterling Towers, 20 Marina, Lagos, Nigeria
S	48-50 Sackville Street, Port of Spain, Trinidad and Tobago
T	No.12A Sooty Street, Cnr Reddersburg & Virginia Street, Amberfield Glen, Rooihuiskraal, North Centurion Gauteng, 0175, South Africa
U	333 Bay Street, Suite 400, Toronto ON M5H 2R2, Canada
V	1185 West Georgia Street, Suite 1700, Vancouver BC, V6E 4E6, Canada
W	H-1106 Budapest Jászberényi út 24-36, Hungary
X	Milan (MI), Via Emilio Cornalia 26, Italy
Y	Wiegerbruinlaan 2A, 1422 CB Uithoorn, Netherlands
Z	811 Church Road #105, Cherry Hill NJ 08002, United States
AA	15-23 Bucuresti Nord Street, Windsor Building, Ground Floor, Office No.1 Voluntari, Ilfov County, Romania
AB	2425 W. Loop South, #200, TX 77027, United States
AC	15 North Mill Street, Nyack, NY 10960, United States
AD	1 More London Place, London, SE1 2AF, United Kingdom
AE	1430 Truxtun Avenue, 5 th floor, Bakersfield, CA 93301, United States
AF	350 S. Northwest Highway #300, Park Ridge, IL 60068, United States
AG	20 A Heroiev Stalingrada Avenue, Kyiv 04210, Ukraine
AH	11380 Prosperity Farms Road #221E, Palm Beach Gardens, FL 33410, United States
AI	Skelagervej 1, DK 9000 Aalborg, Denmark
AJ	Schillerstr.7, 40721 Hilden (bei Düsseldorf), Germany
AK	220 Orchard Road, #05-01 Midpoint Orchard, Singapore 238852, Republic of Singapore
AL	15 Atir Yeda Street, Kfar Saba, 44643, Israel
AM	8275 South Eastern Avenue #200, Las Vegas, NV 89123, United States
AN	Graf-Adolf-Platz 12, 40213 Düsseldorf, Germany
AO	1 Glass Wharf, Bristol, BS2 0ZX, United Kingdom
AP	Place de la Défense 12, Maison de la Défense, 92974 Paris, France
AQ	WTS LLC, 67 East Park Place, Morristown, New Jersey 07960, United States
AR	Posthofbrug 12, 2600 Antwerp, Belgium
AS	Lilleakerveien 8, 0283 Oslo, Norway
AT	13 Castle Street, St Helier, JE4 5UT, Jersey
AU	Rådhuspladsen 16, 1550 København V, Denmark
AV	Veritasvien 25, 4007 Stavanger, Norway
AW	160 London Road, Suite 4a London Road, Sevenoaks, Kent, TN13 1BT, United Kingdom
AX	1209 Orange Street, Wilmington, New Castle County, DE 19801, United States
AY	Ul. Wysogotowska 23, 62-081 Przemierowo, Wielkopolskie, Poland
AZ	Webworks, Eglinton Street, Cork, Republic of Ireland
BA	Mariagervej 58B, DK 9500 Hobro, Denmark
BB	90 Whitfield Street, London, W1T 4EZ, United Kingdom ⁽ⁱ⁾
BC	Innovation House, DCU Innovation Campus, 11 Old Finglas Road, Glasnevin, Dublin, 11, Republic of Ireland

(i) Lake Acquisitions Limited changed its registered office on 9 January 2018 from 40 Grosvenor Place, London, SW1X 7EN, United Kingdom to the address listed above.

Notes to the Financial Statements Supplementary information (continued)

S10. RELATED UNDERTAKINGS

(e) Summarised financial information

Material associates and joint ventures

Management has determined that the investment in Lake Acquisitions Limited is sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information, along with reconciliations to the amounts included in the consolidated Group Financial Statements, for this investee.

Lake Acquisitions Limited

Summarised statement of total comprehensive income

Year ended 31 December	2017				2016			
	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m
Revenue	2,690	538	–	538	3,116	623	–	623
Operating profit before interest and tax	482	96	(67)	29	1,011	202	(65)	137
Profit for the year	347	69	(46)	23	778	156	(43)	113
Other comprehensive income	213	43	–	43	318	64	–	64
Total comprehensive income	560	112	(46)	66	1,096	220	(43)	177

Summarised balance sheet

31 December	2017				2016			
	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m
Non-current assets	14,282	2,856	822	3,678	13,957	2,791	879	3,670
Current assets	3,452	691	1	692	3,157	631	7	638
Current liabilities	(695)	(139)	–	(139)	(746)	(149)	–	(149)
Non-current liabilities	(9,141)	(1,828)	(133)	(1,961)	(8,743)	(1,749)	(148)	(1,897)
Net assets	7,898	1,580	690	2,270	7,625	1,524	738	2,262

(i) Before cumulative impairments of £586 million (2016: £586 million) of the Group's associate investment.

During the year, dividends of £57 million (2016: £110 million) were paid by the associate to the Group.

Joint operations – fields/assets

31 December 2017	Location	Percentage holding in ordinary shares and net assets
Cygnus	UK North Sea	61%

Material non-controlling interests

The Group has one subsidiary undertaking with a non-controlling interest: Spirit Energy Limited, which is the parent company of the combined business that comprises the acquired Bayerngas Norge exploration and production business and the Group's existing Exploration & Production business.

31 December	Non-controlling interests %	Profit for the year £m	Total comprehensive income £m	Total equity £m	2017 Distributions to non-controlling interests £m	Non-controlling interests %	Profit for the year £m	Total comprehensive income £m	Total equity £m	2016 Distributions to non-controlling interests £m
Spirit Energy Limited	31%	5	8	729	–	–	–	–	–	–

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of Spirit Energy Limited and its subsidiaries that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

Summarised statement of total comprehensive income

Year ended 31 December	2017 £m	2016 £m
Revenue	160	–
Profit for the year	17	–
Other comprehensive income	10	–
Total comprehensive income	27	–

S10. RELATED UNDERTAKINGS

Summarised balance sheet

31 December	2017 £m	2016 £m
Non-current assets	4,768	—
Current assets	756	—
Current liabilities	(799)	—
Non-current liabilities	(2,373)	—
Net assets	2,352	—

Summarised cash flow

Year ended 31 December	2017 £m	2016 £m
Net decrease in cash and cash equivalents	(71)	—

Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Other equity (note 11) £m	Total equity £m
1 January 2016	317	1,135	26	1,423	(138)	2,763
Profit for the year	–	–	–	1,540	–	1,540
Other comprehensive income/(loss):						
Revaluation of available-for-sale securities	–	–	–	–	7	7
Cash flow hedges – net gains	–	–	–	–	135	135
Cash flow hedges – transferred to income and expense	–	–	–	–	(124)	(124)
Actuarial loss	–	–	–	–	(60)	(60)
Taxation on above items	–	–	–	–	8	8
Other equity movements:						
Employee share schemes	–	–	–	1	32	33
Scrip dividend	4	121	–	–	–	125
Dividends paid to equity holders	–	–	–	(651)	–	(651)
Issue of share capital	21	673	–	–	–	694
31 December 2016	342	1,929	26	2,313	(140)	4,470
Profit for the year	–	–	–	1,089	–	1,089
Other comprehensive income/(loss):						
Revaluation of available-for-sale securities	–	–	–	–	6	6
Cash flow hedges – net gains	–	–	–	–	28	28
Cash flow hedges – transferred to income and expense	–	–	–	–	(29)	(29)
Actuarial gain	–	–	–	–	16	16
Taxation on above items	–	–	–	–	(4)	(4)
Other equity movements:						
Employee share schemes	–	–	–	4	31	35
Scrip dividend	6	192	–	–	–	198
Dividends paid to equity holders	–	–	–	(661)	–	(661)
31 December 2017	348	2,121	26	2,745	(92)	5,148

As permitted by section 408(3) of the Companies Act 2006 no Income Statement or Statement of Comprehensive Income is presented.

The Directors propose a final dividend of 8.40 pence per share (totalling £470 million) for the year ended 31 December 2017. Details of the dividends are given in note 11 to the consolidated Group Financial Statements.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the consolidated Group Financial Statements.

The notes on pages 192 to 200 form part of these Financial Statements, along with note 25 to the consolidated Group Financial Statements.

Company Balance Sheet

31 December	Notes	2017 £m	2016 (restated) (i) £m
Non-current assets			
Property, plant and equipment	IV	4	–
Other intangible assets	V	69	46
Investments	VI	2,286	2,305
Deferred tax assets	VII	–	13
Trade and other receivables	VIII	1,075	1,704
Derivative financial instruments	IX	300	464
Retirement benefit assets	XVI	33	–
Securities	XI	222	215
		3,989	4,747
Current assets			
Trade and other receivables	VIII	11,481	12,407
Derivative financial instruments	IX	90	315
Current tax assets		11	21
Cash and cash equivalents	XII	2,300	1,480
		13,882	14,223
		17,871	18,970
Total assets			
Current liabilities			
Derivative financial instruments	IX	(43)	(196)
Trade and other payables	XIII	(6,522)	(7,808)
Provisions for other liabilities and charges	XIV	(4)	(6)
Bank overdrafts, loans and other borrowings	XV	(543)	(321)
		(7,112)	(8,331)
Non-current liabilities			
Derivative financial instruments	IX	(57)	(60)
Trade and other payables	XIII	(89)	(84)
Provisions for other liabilities and charges	XIV	(3)	(3)
Retirement benefit liabilities	XVI	(63)	(86)
Bank loans and other borrowings	XV	(5,399)	(5,936)
		(5,611)	(6,169)
		(12,723)	(14,500)
Total liabilities			
Net assets			
Share capital		348	342
Share premium		2,121	1,929
Capital redemption reserve		26	26
Retained earnings (ii)		2,745	2,313
Other equity	II	(92)	(140)
		5,148	4,470
Total shareholders' equity			

(i) Current tax assets of £21 million as at 31 December 2016 have been reclassified from trade and other receivables.

(ii) Retained earnings includes a net profit after taxation of £1,089 million (2016: £1,540 million).

The Financial Statements on pages 190 to 200, of which the notes on pages 192 to 200 form part, along with note 25 to the consolidated Group Financial Statements, were approved and authorised for issue by the Board of Directors on 21 February 2018 and were signed on its behalf by:

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Notes to the Company Financial Statements

I. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

General information

The Company is a public company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales. The registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The Company Financial Statements are presented in pounds sterling with all values rounded to the nearest million pounds. Pounds sterling is the functional currency of the Company.

Basis of preparation

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

From 1 January 2017, the following amendments are effective in the Company's Financial Statements. Their first time adoption did not have a material impact on the Financial Statements.

- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

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

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

As the consolidated Financial Statements of Centrica plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2: 'Share-based payment' in respect of Group settled share-based payments; and
- certain disclosures required by IFRS 13: 'Fair value measurement' and the disclosures required by IFRS 7: 'Financial instruments: disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value.

Measurement convention

The Company Financial Statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101; derivative financial instruments, available-for-sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition, and the assets of the defined benefit pension schemes that have been measured at fair value; the liabilities of the defined benefit pension schemes that have been measured using the projected unit credit valuation method; and the carrying values of recognised assets and liabilities qualifying as hedged items in fair value hedges that have been adjusted from cost by the changes in the fair values attributable to the risks that are being hedged.

Going concern

The accounts have been prepared on a going concern basis, as described in the Directors' Report and note 24(b) of the consolidated Group Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty are set out in note 3 of the consolidated Group Financial Statements.

The key accounting judgement of the Company is the carrying value of its investments in subsidiary undertakings and receivables from these undertakings. The Company does not deem its investments in subsidiary undertakings to be impaired and supports this judgement through its impairment review process as detailed below. This impairment review process identified that some receivables from Group undertakings were not fully recoverable and accordingly an increase in the bad debt provision of £17 million (2016: £87 million) was recognised against receivables during the year and impairments of £709 million (2016: £404 million) made in previous years were reversed.

Key sources of estimation uncertainty include the allocation of the Company's share of pension scheme surplus/deficit, as detailed further within the accounting policies section of these Company Financial Statements, and also in note XVI.

I. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Principal accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Company Financial Statements.

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 78 to 89 and in note S2 to the consolidated Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. When these costs are recharged to the subsidiary undertaking, the investment balance is reduced accordingly.

Fair value is measured using methods detailed in note S2 to the consolidated Group Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the Income Statement.

Property, plant and equipment

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

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, on a straight-line basis, over a period of 3 to 10 years.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets consist of application software for internal use. The cost of purchased application software, for example investments in financial and administrative systems, includes contractors' charges, materials, directly attributable labour and directly attributable overheads. Intangible assets are amortised on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to 10 years. Amortisation of assets under construction commences when the asset is operational.

Investments

Fixed asset investments in subsidiaries' shares are held at deemed cost on transition to FRS 101 and at cost in accordance with IAS 27: 'Separate financial statements', less any provision for impairment as necessary for any subsequent investments.

Impairment

The Company's accounting policies in respect of impairment of property, plant and equipment, intangible assets and financial assets are consistent with those of the Group.

The carrying values of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Receivables from Group undertakings are compared to their recoverable amount, which is also assessed using the same estimated discounted future cash flow for each undertaking as described above.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

Leases

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

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

Notes to the Company Financial Statements (continued)

I. GENERAL INFORMATION AND PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22 to the consolidated Group Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax assets that are not eligible for offset against deferred tax liabilities are recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Financial instruments

The Company's accounting policies for financial instruments are consistent with those of the Group as disclosed in note S2 to the consolidated Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal Risks and Uncertainties on pages 52 to 62 and in note S3 to the consolidated Group Financial Statements.

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefit will be required to settle the obligation.

II. OTHER EQUITY

	Cash flow hedging reserve £m	Actuarial gains and losses reserve £m	Available-for-sale reserve (AFS) £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Total £m
1 January 2016	(9)	(46)	22	(198)	93	(138)
Revaluation of available-for-sale securities	–	–	7	–	–	7
Actuarial loss	–	(60)	–	–	–	(60)
Employee share schemes:						
Increase in own shares	–	–	–	(17)	–	(17)
Exercise of awards	–	–	–	35	(32)	3
Value of services provided	–	–	–	–	46	46
Cash flow hedges:						
Net gains	135	–	–	–	–	135
Transferred to income and expense	(124)	–	–	–	–	(124)
Taxation on above items	(2)	11	(1)	–	–	8
31 December 2016	–	(95)	28	(180)	107	(140)
Revaluation of available-for-sale securities	–	–	6	–	–	6
Actuarial gain	–	16	–	–	–	16
Employee share schemes:						
Increase in own shares	–	–	–	(11)	–	(11)
Exercise of awards	–	–	–	49	(54)	(5)
Value of services provided	–	–	–	–	47	47
Cash flow hedges:						
Net gains	28	–	–	–	–	28
Transferred to income and expense	(29)	–	–	–	–	(29)
Taxation on above items	–	(3)	(1)	–	–	(4)
31 December 2017	(1)	(82)	33	(142)	100	(92)

III. DIRECTORS AND EMPLOYEES

Employee costs

Year ended 31 December	2017 £m	2016 £m
Wages and salaries	(58)	(78)
Social security costs	(6)	(8)
Pension and other post-retirement benefits costs	(20)	(5)
Share scheme costs	(5)	(4)
Capitalised employee costs	1	2
	(88)	(93)

Average number of employees during the year

Year ended 31 December	2017 Number	2016 Number
Administration	368	493
Power	121	184
	489	677

IV. PROPERTY, PLANT AND EQUIPMENT

	2017 £m
Cost	
1 January	–
Additions	4
31 December	4
Accumulated depreciation 1 January and 31 December	–
NBV at 31 December	4

Notes to the Company Financial Statements (continued)

V. OTHER INTANGIBLE ASSETS

	2017 £m
Cost	
1 January	49
Additions	31
31 December	80
Accumulated amortisation	
1 January	3
Charge for the year	8
31 December	11
NBV at 31 December	69

VI. INVESTMENTS IN SUBSIDIARIES

	2017 (i) £m	2016 (i) £m
Cost		
1 January	2,305	2,306
Disposals	(19)	(1)
31 December	2,286	2,305

(i) Disposals include the net change in shares to be awarded under employee share schemes to employees of Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England. Related undertakings are listed in note S10 to the consolidated Group Financial Statements.

The Directors believe that the carrying value of the investments is supported by their realisable value.

VII. DEFERRED TAX

	Retirement benefit obligation £m	Other £m	Total £m
1 January 2016	8	(2)	6
Charge to income	(1)	–	(1)
Reserves credit/(charge)	11	(3)	8
31 December 2016	18	(5)	13
Charge to income	(8)	(1)	(9)
Reserves charge	(3)	(1)	(4)
31 December 2017	7	(7)	–

Other deferred corporation tax assets primarily relate to other temporary differences. All deferred tax crystallises in over one year.

VIII. TRADE AND OTHER RECEIVABLES

31 December	2017		2016 (restated) (i)	
	Current (ii) £m	Non-current (iii) £m	Current (ii) £m	Non-current (iii) £m
Amounts owed by Group undertakings	11,476	1,067	12,404	1,696
Prepayments	5	8	3	8
	11,481	1,075	12,407	1,704

(i) Current tax assets of £21 million as at 31 December 2016 have been reclassified from trade and other receivables to its own category in the Balance Sheet.

(ii) The amounts receivable by the Company include £10,381 million (2016: £10,339 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.0% and 4.7% per annum during 2017 (2016: 2.4% and 4.7%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand. Amounts receivable by the Company are stated net of provisions of £73 million (2016: £765 million).

(iii) The amounts receivable by the Company due after more than one year include £1,028 million (2016: £1,663 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 4.6% and 7.4% per annum during 2017 (2016: 4.4% and 7.1%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable in two to three years.

IX. DERIVATIVE FINANCIAL INSTRUMENTS

31 December	Current £m	Non-current £m	2017 Total £m	Current £m	Non-current £m	2016 Total £m
Derivative financial assets	90	300	390	315	464	779
Derivative financial liabilities	(43)	(57)	(100)	(196)	(60)	(256)

X. FINANCIAL INSTRUMENTS

(a) Determination of fair values

The Company's policy for the classification and valuation of financial instruments carried at fair value into one of the three hierarchy levels determined in accordance with IFRS 13 are consistent with those of the Group, as detailed in note S6 to the consolidated Group Financial Statements.

(b) Financial instruments carried at fair value

31 December	Level 1 £m	Level 2 £m	Level 3 £m	2017 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2016 Total £m
Financial assets designated as fair value through profit or loss:								
Treasury gilts	128	–	–	128	130	–	–	130
Derivative financial assets:								
Held for trading:								
Foreign exchange derivatives	–	102	–	102	–	480	–	480
In hedge accounting relationships:								
Interest rate derivatives	–	128	–	128	–	158	–	158
Foreign exchange derivatives	–	160	–	160	–	141	–	141
Total financial assets at fair value through profit or loss	128	390	–	518	130	779	–	909
Available-for-sale financial assets:								
Debt instruments	69	–	–	69	64	–	–	64
Equity instruments	25	–	–	25	21	–	–	21
Total financial assets at fair value	222	390	–	612	215	779	–	994
Derivative financial liabilities:								
Held for trading:								
Interest rate derivatives	–	(28)	–	(28)	–	(30)	–	(30)
Foreign exchange derivatives	–	(51)	–	(51)	–	(220)	–	(220)
In hedge accounting relationships:								
Interest rate derivatives	–	(6)	–	(6)	–	(6)	–	(6)
Foreign exchange derivatives	–	(15)	–	(15)	–	–	–	–
Total financial liabilities	–	(100)	–	(100)	–	(256)	–	(256)
Total financial instruments	222	290	–	512	215	523	–	738

XI. SECURITIES

31 December	2017 £m	2016 £m
Treasury gilts designated at fair value through profit or loss	128	130
Debt instrument	69	64
Equity instrument	25	21
	222	215

£94 million (2016: £85 million) of investments were held in trust, on behalf of the Company, as security in respect of the Centrica Unfunded Pension Scheme (refer to note XVI).

Notes to the Company Financial Statements (continued)

XII. CASH AND CASH EQUIVALENTS

31 December	2017 £m	2016 £m
Cash at bank and in hand	22	2
Deposits at call ⁽ⁱ⁾	2,278	1,478
	2,300	1,480

(i) Term deposits are presented as cash equivalents if they have a maturity of three months or less.

XIII. TRADE AND OTHER PAYABLES

31 December	2017		2016	
	Current (i) £m	Non-current (ii) £m	Current (i) £m	Non-current (ii) £m
Amounts owed to Group undertakings	(6,458)	(89)	(7,740)	(84)
Other taxation and social security	(1)	–	(2)	–
Accruals and other creditors	(63)	–	(66)	–
	(6,522)	(89)	(7,808)	(84)

(i) The amounts payable by the Company include £5,838 million (2016: £7,239 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.0% and 4.7% per annum during 2017 (2016: 2.4% and 4.7%). Other amounts payable by the Company are interest free.

(ii) The amounts payable by the Company due after more than one year include £80 million (2016: £60 million) that bears interest at the prevailing LIBOR rate less 0.05%. These amounts payable are due in over five years. Other amounts payable by the Company are interest free.

XIV. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Current	1 January 2017 £m	Charged in the year £m	Utilised £m	Transfers (i) £m	31 December 2017 £m
Restructuring	(3)	(2)	2	2	(1)
Other	(3)	–	1	(1)	(3)
	(6)	(2)	3	1	(4)

Non-current	1 January 2017 £m	Charged in the year £m	Utilised £m	Transfers (i) £m	31 December 2017 £m
Other	(3)	(1)	–	1	(3)
	(3)	(1)	–	1	(3)

(i) Includes transfers to/from other balance sheet accounts, including retirement benefit obligations.

Other provisions principally represent estimated liabilities for contractual settlements and National Insurance in respect of employee share scheme liabilities. The National Insurance provision is based on a share price of 137.3 pence at 31 December 2017 (2016: 234.1 pence).

XV. BANK OVERDRAFTS, LOANS AND OTHER BORROWINGS

31 December	2017		2016	
	Current £m	Non-current £m	Current £m	Non-current £m
Bank loans and overdrafts	(12)	(138)	(38)	(148)
Bonds	(411)	(5,261)	(162)	(5,788)
Interest accruals	(120)	–	(121)	–
	(543)	(5,399)	(321)	(5,936)

Disclosures in respect of the Group's financial liabilities are provided in note 24 to the consolidated Group Financial Statements.

XVI. PENSIONS

(a) Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS) and Centrica Unfunded Pension Scheme. Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the consolidated Group Financial Statements.

Together with the Centrica Engineers Pensions Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the consolidated Group Financial Statements as the 'Registered Pension Schemes'.

The Company is the principal employer for the Registered Pension Schemes. For further information of critical accounting judgements and key sources of estimation uncertainty in relation to pensions please refer to notes 3 and 22 in the Group Financial Statements.

(b) Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the consolidated Group Financial Statements.

(c) Movements in the year

	Pension liabilities £m	2017 Pension assets £m	Pension liabilities £m	2016 Pension assets £m
1 January	(549)	463	(368)	327
Items included in the Company Income Statement:				
Current service cost	(10)	–	(5)	–
Past service (cost)/credit	(7)	–	4	–
Interest on scheme liabilities	(15)	–	(14)	–
Expected return on scheme assets	–	14	–	12
Other movements:				
Actuarial (loss)/gain	(513)	529	(175)	115
Employer contributions	–	64	–	20
Benefits paid from schemes	18	(18)	11	(11)
Transfers ⁽ⁱ⁾	(6)	–	(2)	–
31 December	(1,082)	1,052	(549)	463

(i) Transfers include £2 million (2016: £2 million) transferred from provisions for other liabilities and charges.

Presented in the Company Balance Sheet as:

	2017 £m	2016 £m
31 December		
Defined benefit pension assets	33	–
Defined benefit pension liabilities	(63)	(86)
	(30)	(86)

Of the pension schemes liabilities, £63 million (2016: £62 million) relates to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial losses recognised in reserves (note II)

Year ended 31 December	2017 £m	2016 £m
Actuarial gain (actual return less expected return on pension scheme assets)	529	115
Experience gain arising on the scheme liabilities	(2)	8
Changes in assumptions underlying the present value of the schemes' liabilities	(511)	(183)
Actuarial gain/(loss) recognised in reserves before adjustment for taxation	16	(60)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	(117)	(57)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(101)	(117)

(e) Pension scheme contributions

Note 22 to the consolidated Group Financial Statements provides details of the triennial review carried out at 31 March 2015 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012, 2013 and 2016. Under IAS 19, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £9 million of employer contributions during 2018 at an average rate of 26% of pensionable pay together with contributions via the salary sacrifice arrangement of £3 million.

Notes to the Company Financial Statements (continued)

XVI. PENSIONS

(f) Pension scheme assets

31 December	Quoted £m	Unquoted £m	2017 Total £m	Quoted £m	Unquoted £m	2016 Total £m
Equities	2,089	303	2,392	1,970	307	2,277
Diversified asset funds	–	–	–	50	–	50
Corporate bonds	1,276	–	1,276	1,274	–	1,274
High-yield debt	280	1,450	1,730	309	1,296	1,605
Liability matching assets	1,663	952	2,615	1,241	844	2,085
Property	–	369	369	–	319	319
Cash pending investment	3	–	3	276	–	276
Asset-backed contribution assets	–	864	864	–	406	406
Group pension scheme assets ⁽ⁱ⁾	5,311	3,938	9,249	5,120	3,172	8,292
			2017 £m			2016 £m
Company share of the above			1,052			463

(i) Total pension scheme assets for the UK pension schemes.

XVII. COMMITMENTS

At 31 December 2017, the Company had commitments of £49 million (2016: £56 million) relating to contracts for outsourced services and £3 million (2016: £1 million) of total non-cancellable minimum lease payments in respect of land and buildings. The Company has guaranteed annual minimum lease payments of £6 million (2016: £6 million) in respect of operating commitments of a subsidiary undertaking, expiring in more than 5 years. The Company's commitment in respect of its agreement with Cheniere is detailed in note 23 to the consolidated Group Financial Statements.

The Company enters into parent company guarantee arrangements and letters of credit in relation to its subsidiary undertakings. The Company has assessed the likelihood of these guarantees being called, or letters of credit being drawn upon, as remote.

XVIII. RELATED PARTIES

During the year the Company accepted cash deposits and entered into foreign currency derivatives on behalf of the Spirit Energy group of companies as follows:

	Spirit Energy Treasury Limited £m	2017 Spirit Energy Resources Limited £m	Spirit Energy Treasury Limited £m	2016 Spirit Energy Resources Limited £m
Trade and other payables	(121)	–	–	–
Derivative financial assets – mark to market movement and year-end balance	1	1	–	–
Derivative financial liabilities – mark to market movement and year-end balance	(1)	–	–	–

Gas and Liquids Reserves (Unaudited)

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

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

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

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

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

The principal fields in Europe are Kvittebjørn, Staffjord, Hejre, Ivar Aasen, Cygnus, Maria, South and North Morecambe, Rhyl and Chiswick. The principal field in Centrica Storage is the Rough field. 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)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
1 January 2017	1,225	821	52	2,098	167	2,265
Revisions of previous estimates (iv)	(8)	–	–	(8)	–	(8)
Disposals of reserves in place (v)	–	(773)	(42)	(815)	–	(815)
Extensions, discoveries and other additions	49	–	–	49	–	49
Spirit Energy transaction (vi) :						
Acquisition of 69% share of Bayerngas Norge	129	–	–	129	–	129
Disposal of 31% share of reserves in place	(341)	–	–	(341)	–	(341)
Production (vii)	(175)	(48)	(10)	(233)	(25)	(258)
31 December 2017	879	–	–	879	142	1,021

Estimated net 2P reserves of liquids (million barrels)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
1 January 2017	106	18	–	124	–	124
Revisions of previous estimates (iv)	3	–	–	3	–	3
Disposals of reserves in place (v)	–	(17)	–	(17)	–	(17)
Extensions, discoveries and other additions	7	–	–	7	–	7
Spirit Energy transaction (vi) :						
Acquisition of 69% share of Bayerngas Norge	33	–	–	33	–	33
Disposal of 31% share of reserves in place	(32)	–	–	(32)	–	(32)
Production (vii)	(12)	(1)	–	(13)	–	(13)
31 December 2017	105	–	–	105	–	105

Estimated net 2P reserves (million barrels of oil equivalent)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
31 December 2017 (viii)	251	–	–	251	24	275

(i) Spirit Energy is a newly formed business combining the Group's existing Exploration & Production business with that of Bayerngas Norge AS. This transaction was completed on 8 December 2017, with the Group owning 69% of Spirit Energy. Europe reserves movements represent Centrica's 100% ownership in Exploration & Production business up to the transaction date. From 8 December 2017 to 31 December 2017 the movements represent Centrica's 69% interest.

(ii) On 29 September 2017, the Group disposed of its 60% interest in the natural gas and liquid assets owned by the CQ Energy Canada Partnership.

(iii) On 27 May 2017, the Group disposed of its Trinidad and Tobago gas assets.

(iv) Revision of previous estimates include those associated with North and South Morecambe, Galleon, York, West Brae and Alba areas in Europe.

(v) Reflects the disposal of interests in the CQ Energy Canada Partnership and Trinidad and Tobago gas and liquid assets.

(vi) Represents Centrica's change in reserves following the Spirit Energy transaction detailed in (i) above.

(vii) Represents total sales volumes of gas and oil produced from the Group's reserves.

(viii) Includes the total of estimated gas and liquids reserves at 31 December 2017 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Summary (Unaudited)

Year ended 31 December	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Group revenue	26,571	29,408	27,971	27,102	28,023
Operating profit before exceptional items and certain re-measurements:					
UK Home	920	737	880	810	819
Ireland	–	7	30	46	47
North America Home	199	118	77	93	119
Connected Home	(27)	(23)	(49)	(50)	(95)
UK Business	137	114	(19)	50	4
North America Business	77	20	246	221	71
Distributed Energy & Power	(30)	(17)	(32)	(26)	(53)
Energy Marketing & Trading	117	136	66	161	104
Central Power Generation	111	81	128	75	35
Exploration & Production	1,019	455	95	187	184
Centrica Storage	63	29	37	(52)	17
Adjusted operating profit – operating profit before exceptional items and certain re-measurements	2,586	1,657	1,459	1,515	1,252
Share of joint ventures' and associates' interest and taxation	(68)	(89)	(61)	(48)	(7)
	2,518	1,568	1,398	1,467	1,245
Exceptional items and certain re-measurements after taxation	(383)	(1,932)	(1,717)	777	(407)
Profit/(loss) attributable to owners of the parent	950	(1,012)	(747)	1,672	333
	Pence	Pence	Pence	Pence	Pence
Earnings per ordinary share	18.4	(20.2)	(14.9)	31.4	6.0
Adjusted earnings per ordinary share	25.9	18.0	17.2	16.8	12.6
Dividend per share declared in respect of the year	17.0	13.5	12.0	12.0	12.0

Assets and liabilities

31 December	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Goodwill and other intangible assets	4,724	4,600	3,824	4,383	4,326
Other non-current assets	10,993	9,974	7,790	8,218	7,180
Net current (liabilities)/assets	(470)	(1,492)	(521)	1,220	1,710
Non-current liabilities	(10,192)	(10,011)	(9,718)	(11,173)	(9,788)
Net assets/(liabilities) of disposal groups held for sale	202	–	(33)	196	–
Net assets	5,257	3,071	1,342	2,844	3,428
Debt, net of cash, cash equivalents and securities:					
Net debt	(4,942)	(5,196)	(4,747)	(3,473)	(2,596)

Cash flows

Year ended 31 December	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Cash flow from operating activities before exceptional payments	3,164	1,342	2,278	2,669	2,016
Payments relating to exceptional charges	(224)	(125)	(81)	(273)	(176)
Net cash flow from investing activities	(2,351)	(651)	(611)	(803)	32
Cash flow before cash flow from financing activities	589	566	1,586	1,593	1,872

Ofgem Consolidated Segmental Statement

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF CENTRICA PLC AND ITS LICENSEES

In our opinion, the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees for the year ended 31 December 2017 is prepared, in all material respects, in accordance with:

- the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator Ofgem; and
- the basis of preparation on pages 210 to 212.

We have audited the Consolidated Segmental Statement of Centrica plc and its Licensees (as listed in footnote (i)) (the Group) for the year ended 31 December 2017 in accordance with the terms of our engagement letter dated 19 January 2018. The Consolidated Segmental Statement has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 210 to 212.

Basis for opinion

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

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

Emphasis of matter – basis of accounting

We draw attention to pages 210 to 212 of the CSS which describes the basis of accounting. The CSS is prepared to assist the Company in complying with the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem. The basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the CSS may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for other information. The other information comprises the information included in the annual report, other than the Financial Statements and CSS and our auditor's reports thereon. Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of the Directors

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 210 to 212 and for such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

In preparing the CSS the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the CSS

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

A further description of our responsibilities for the audit of the CSS is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ofgem Consolidated Segmental Statement (continued)

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF CENTRICA PLC AND ITS LICENSEES

Use of this report

This report is made solely to the Company's Directors, as a body, in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be displayed on the Centrica plc website centrica.com⁽ⁱ⁾, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc for our work or this report except where terms are expressly agreed between us in writing. The materiality level we used in planning and performing our audit was £30 million.

The engagement partner on the audit resulting in this Independent Auditor's Report is Dean Cook.

Deloitte LLP

21 February 2018

London

- (i) British Gas Trading Limited, Neas Energy Limited, Centrica Langage Limited, Centrica SHB Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica PB Limited and Centrica KL Limited.
- (ii) The maintenance and integrity of Centrica plc's website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

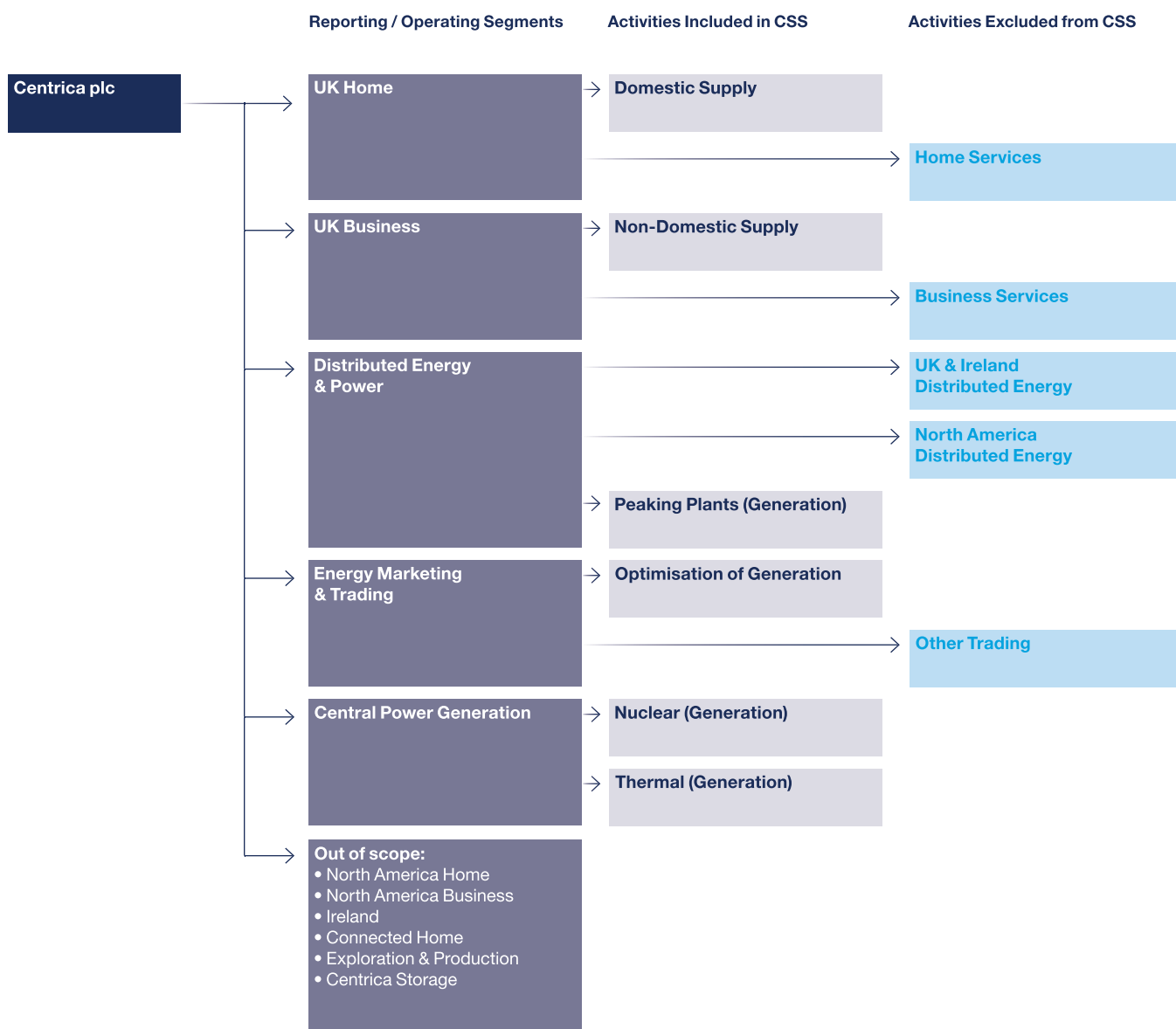
INTRODUCTION

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 205 to 214 are provided in order to comply with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information is prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Centrica plc Annual Report and Accounts for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

CENTRICA PLC OPERATIONAL REPORTING STRUCTURE

Below is a summary of the Centrica plc Group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Annual Report and Accounts 2017 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licensed activities (for example Business Services and trading activity unrelated to Generation or Supply) as illustrated below. The Centrica plc Annual Report and Accounts 2017 provides operating segment results in note 4. A full reconciliation between the relevant operating segment results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



Ofgem Consolidated Segmental Statement (continued)

CENTRICA PLC OPERATIONAL REPORTING STRUCTURE

Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Annual Report and Accounts 2017 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2017 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
Neas Energy Limited ⁽ⁱ⁾	Supply	100%
Centrica Langage Limited ⁽ⁱⁱ⁾	Generation	100%
Centrica SHB Limited ⁽ⁱⁱ⁾	Generation	100%
Centrica Brigg Limited	Exempt	100%
Centrica Barry Limited	Generation	100%
Centrica KPS Limited	Generation	100%
Centrica RPS Limited	Exempt	100%
Centrica PB Limited	Generation	100%
Centrica KL Limited	Generation	100%
Lincs Wind Farm Limited ⁽ⁱⁱⁱ⁾	Generation	50% Joint venture
EDF Energy Nuclear Generation Limited ^(iv)	Generation	20% Associate

(i) Neas Energy holds a supply licence but currently does not supply any UK customers.

(ii) Centrica plc Group disposed of Centrica Langage Limited and Centrica SHB Limited on 31 August 2017.

(iii) Centrica plc Group disposed of its 50% share of Lincs Wind Farm Limited on 17 February 2017. As our investment in Lincs Wind Farm Limited was classified as held for sale during 2017 up to date of disposal, its results had no impact on the CSS.

(iv) The Group holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Year ended 31 December 2017

	Unit	Electricity Generation			Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear (i)	Thermal (i)	Renewables		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	548.1	367.2	–	915.3	3,100.5	1,379.6	3,972.8	419.5	8,872.4
Sales of electricity & gas	£m	537.1	340.4	–	877.5	3,009.7	1,379.6	3,891.8	419.5	8,700.6
Other revenue	£m	11.0	26.8	–	37.8	90.8	–	81.0	–	171.8
Total operating costs	£m	(343.5)	(394.9)	–	(738.4)	(3,095.7)	(1,386.0)	(3,296.0)	(393.5)	(8,171.2)
Direct fuel costs	£m	(101.5)	(208.0)	–	(309.5)	(1,065.8)	(574.3)	(1,448.7)	(209.4)	(3,298.2)
Direct costs	£m	(216.7)	(153.0)	–	(369.7)	(1,472.0)	(662.4)	(1,117.1)	(113.7)	(3,365.2)
Network costs	£m	(43.7)	(29.8)	–	(73.5)	(871.2)	(349.9)	(1,027.8)	(88.7)	(2,337.6)
Environmental and social obligation costs	£m	–	(66.0)	–	(66.0)	(559.1)	(286.3)	(48.8)	–	(894.2)
Other direct costs	£m	(173.0)	(57.2)	–	(230.2)	(41.7)	(26.2)	(40.5)	(25.0)	(133.4)
Indirect costs	£m	(25.3)	(33.9)	–	(59.2)	(557.9)	(149.3)	(730.2)	(70.4)	(1,507.8)
WACOF/E/G	£/MWh, P/th	(7.9)	(36.5)	–	N/A	(51.5)	(50.8)	(45.3)	(48.0)	N/A
EBITDA	£m	204.6	(27.7)	–	176.9	4.8	(6.4)	676.8	26.0	701.2
DA	£m	(142.5)	(10.5)	–	(153.0)	(51.4)	(9.7)	(63.8)	(4.4)	(129.3)
EBIT	£m	62.1	(38.2)	–	23.9	(46.6)	(16.1)	613.0	21.6	571.9
Volume	TWh, MThms	12.8	7.5	–	N/A	20.7	11.3	3,200.5	436.6	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	N/A	6,113.2	474.7	7,588.3	211.9	N/A

Supply EBIT	margin	(1.5)%	(1.2)%	15.4%	5.1%	6.4%
Supply PAT	£m	(38.5)	(12.0)	503.9	18.5	471.9
Supply PAT	margin	(1.2)%	(0.9)%	12.7%	4.4%	5.3%

2016 Summarised CSS

Year ended 31 December 2016

	Unit	Electricity Generation			Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear (i)	Thermal (i)	Renewables		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	576.1	532.0	72.2	1,180.3	3,208.7	1,459.1	4,498.5	538.8	9,705.1
EBIT	£m	112.2	(50.6)	10.2	71.8	(125.9)	1.9	678.9	47.9	602.8

Supply EBIT	margin	(3.9)%	0.1%	15.1%	8.9%	6.2%
Supply PAT	£m	(105.3)	1.6	567.7	40.5	504.5
Supply PAT	margin	(3.3)%	0.1%	12.6%	7.5%	5.2%

(i) The Nuclear and Thermal segments represent conventional electricity generation.

Ofgem Consolidated Segmental Statement (continued)

GLOSSARY OF TERMS

- 'WACOF/E/G' is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes. For the Thermal sub-segment the cost of carbon emissions is added to direct fuel costs before dividing by the generated volume.
- 'EBITDA' is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- 'DA' is depreciation and amortisation.
- 'EBIT' is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- 'Supply EBIT margin' is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- 'Supply PAT' is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- 'Supply PAT margin' is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- 'Volume' for Supply is supplier volumes at the meter point (i.e. net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (i.e. generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).
- 'Average customer numbers/sites' are calculated by adding average monthly customer numbers/sites (as defined in the basis of preparation) and dividing by 12.

BUSINESS FUNCTIONS TABLE

Year ended 31 December 2017 – analysis of business functions ⁽ⁱ⁾

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral) ⁽ⁱⁱ⁾
Holds unhedged positions (either short or long)	✓	✓	✓ ⁽ⁱⁱ⁾
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	–	✓ ⁽ⁱⁱⁱ⁾
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓ ^(iv)	✓ ^(iv)	✓ ^(iv)
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.

(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market-facing legal entity. CEL forms part of our non-licensed element of Energy Marketing & Trading function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).

(iii) 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.

(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:

- ✓ Function resides and profit/loss recorded in segment.
- Neither function nor profit/loss reside in segment.

Glossary of terms

- 'Scheduling decisions' means the decision to run individual generation units.
- 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 'Interacts with wider market participants to buy/sell energy' means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 'Bears short-term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Ofgem Consolidated Segmental Statement (continued)

BASIS OF PREPARATION

The following notes provide a summary of the basis of preparation of the 2017 submission.

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

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2017, included in the Centrica plc Annual Report and Accounts 2017 which have been prepared under IFRS as adopted by the EU (in accordance with paragraph 3/19A.3).

The CSS has been prepared on a going concern basis, as described in the Directors' Report and note 24(b) in the Centrica plc Annual Report and Accounts 2017.

For the Generation segment, we have included the financial results from all activities that relate to our generation licences with the exception of held for sale activities in relation to renewables up to disposal in February 2017. For clarity the following judgements have been made:

- where a sub-segment (for example Nuclear or Thermal) has undertaken trades to optimise the result of their underlying generation (for example through our Energy Marketing & Trading business), the net revenue and result from these trades has been included in the CSS sub-segment as they are considered to be related to our generation licences;
- the Group has a long-term tolling contract in respect of the Spalding power station, but does not specifically hold the generation licence. This arrangement provides the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We do not own the power station and the Group does not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a finance lease (under IFRS) and therefore the financial result and volume has been included in the Thermal sub-segment, within the Generation segment;
- Brigg and Roosecote power stations had their licences revoked on 2 July 2015 (at their request) because they no longer required an electricity generation licence and are now exempt. Whilst we do not specifically hold a generation licence for these power stations, the financial results from these businesses have been included in the Thermal sub-segment and hence within the Generation segment;
- the Group has a 20% equity interest in Lake Acquisitions Limited, which owns eight nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our gross share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment; and
- where power is purchased from third parties (for example from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a finance leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment. In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

Domestic Supply represents the revenue and associated costs in supplying gas and electricity to residential customers in the UK.

Non-Domestic Supply represents the revenue and associated costs in supplying gas and electricity to business customers in the UK.

As a voluntary disclosure, to aid comparability, a summarised 2016 CSS with margins has been included within the report.

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2017, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from sales of electricity and gas for the Supply segment is recognised on the basis of gas and electricity supplied during the year to both domestic and non-domestic customers.
- Revenue from sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from Domestic Supply revenues directly, charged specifically to each fuel.
- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.

BASIS OF PREPARATION

- The financial risks and rewards of owning and using the Group's power stations reside entirely in the reported Generation segment.
- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
 - £90.8 million (2016: £81.0 million) in Domestic Electricity Supply and £81.0 million (2016: £77.6 million) in Domestic Gas Supply primarily relating to New Housing Connections and smart meter installations;
 - £26.8 million (2016: £24.7 million) in Thermal principally relating to Supplementary Balancing Reserve (SBR), Short Term Operating Reserve (STOR) and Triad revenue; and
 - £11.0 million (2016: £6.0 million) revenue in Nuclear not directly related to energy sales, such as capacity market income and provision of miscellaneous services to other nuclear facilities.

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of bilateral, OTC and exchange-based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis. The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact Domestic and Non-Domestic purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
Over-the-counter ('OTC')	Broker supported market of standardised products, predominantly performed via screen-based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal OTC price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

WACOF/WACOE/WACOG

- For Generation this represents the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the Generation business. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost, the energy element of reconciliation by difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of bilateral, OTC and exchange-based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using annually updated fixed percentages based on the historical split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (for example APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £38.4 million incurred by Gas Domestic Supply in 2017, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas (2016: £40.8 million).
- Environmental and social obligation costs for Domestic Supply include ROCs, FIT and ECO. Non-Domestic Supply includes the cost of LECs, ROCs and FIT. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT and ROCs are included within Electricity, and ECO is allocated between Electricity and Gas based on the relevant legislation. Environmental and social obligation costs for the Generation segment relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs for Generation include employee and maintenance costs.

Ofgem Consolidated Segmental Statement (continued)

BASIS OF PREPARATION

- Other direct costs for Supply include brokers' costs and sales commissions when the costs have given rise directly to revenue, that is, producing a sale. They also include Elexon and Xoserve market participation and wider Smart metering programme costs.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt costs, costs to serve, IT, HR, finance, property, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers, which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges but excluding bad debt costs) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic). Bad debt costs are allocated between Electricity and Gas on the basis of actual bad debt cost by individual contract in the billing system (Domestic) and on the basis of revenues (Non-Domestic).

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT. Note 4(c) of the Centrica plc Annual Report and Accounts 2017 provides details of the adjusted operating profit after tax of the relevant operating segments.
- For the Domestic Supply segment, customer numbers are stated based on the number of district meter point reference numbers (MPRNs) and meter point administration numbers (MPANs) in our billing system (for gas and electricity respectively), where it shows an active point of delivery and a meter installation. As a result, our customer numbers do not include those meter points where a meter may recently have been installed but the associated industry registration process has yet to complete, as the meter information will not be present in our billing system.
- For the Non-Domestic Supply segment, sites are based on the number of distinct MPRNs and MPANs in our billing system for gas and electricity respectively.

Transfer pricing for electricity, gas and generation licensees in accordance with paragraph 4(d)/19A.4(d)

There are no specific energy supply agreements between the Generation and Supply segments.

The Group continues to ensure transfer pricing methodologies are appropriate and up to date. In order to meet this requirement, the Group ensured all transfer pricing and cost allocation methodologies were internally reviewed, updated and collated in a central repository. Internal Audit performed a limited procedures review of the documentation in January 2018 to give comfort over compliance with the Ofgem guidelines.

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2017 principally arises from the Group's interests in the entities listed on page 206, with the exception of our investment in Lincs Wind Farm Limited, which was classified as held for sale in the period to disposal.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our gross share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line-by-line within the relevant item of the CSS.

The Supply segment has investments in associates but because the investees' businesses do not relate to the sale of gas and electricity, the share of result (revenue of £0.1 million (2016: £0.7 million), EBIT loss of £0.1 million (2016: £0.5 million loss)) has been included net within indirect costs rather than gross, on a line-by-line basis.

Exceptional items and certain re-measurements

Mark-to-market adjustments, profits or losses on disposal, restructuring costs, impairment charges and impairment write-backs that have been identified in the Centrica plc Annual Report and Accounts 2017 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2017.

The Nuclear sub-segment result includes a £17.0 million (2016: £20.9 million) profit from the revaluation of contingent valuation rights, related to the original acquisition of the Nuclear investment.

The Domestic Supply segment includes a charge of £3.9 million for the impairment of an associate. This item has been included in the Supply segment as it is not exceptional in size, nature or incidence and does not materially change the Domestic Supply result.

In 2016, the Non-Domestic Supply segment included fines of £9.5 million for billing failures and £4.5 million for delays in smart meter roll-outs (offset by a £4.0 million provision previously held). There were no transactions of this nature in 2017.

A reconciliation of the Segmental Statement revenue, EBIT, depreciation and Supply PAT to the 2017 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraphs 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

The reconciliation refers to the segmental analysis of the 2017 Centrica plc Annual Report and Accounts in note 4.

	Notes	Supply segment				
		Generation segment	Domestic		Non-Domestic	
			Electricity	Gas	Electricity	Gas
2017	2017	2017	2017	2017		
Centrica plc Annual Report and Accounts Segmental Analysis ⁽ⁱ⁾						
Revenue (£m)						
UK Home/Business		–	8,535.6	1,829.5		
Central Power Generation		622.2	–	–		
Distributed Energy & Power (DE&P)		170.9	–	–		
Less UK Home Services and UK Business Services elements	1	–	(1,462.3)	(30.4)		
		793.1	7,073.3	1,799.1		
Gas and Electricity allocation	2	–	3,100.5	3,972.8	1,379.6	
419.5						
Include share of JVs and associates	3	538.0	–	–	–	
Exclude intra-segment revenues	4	(597.1)	–	–	–	
Exclude non-Generation elements of DE&P revenues	5	(151.3)	–	–	–	
Add Energy Marketing & Trading (EM&T) optimisation of generation revenues	6	332.6	–	–	–	
Ofgem Consolidated Segmental Statement		915.3	3,100.5	3,972.8	1,379.6	
					419.5	

	Notes	Supply segment				
		Generation segment	Domestic		Non-Domestic	
			Electricity	Gas	Electricity	Gas
2017	2017	2017	2017	2017		
Centrica plc Annual Report and Accounts Segmental Analysis ⁽ⁱ⁾						
EBIT (£m)						
UK Home/Business		–	819.4	3.9		
Central Power Generation		34.8	–	–		
Distributed Energy & Power (DE&P)		(52.8)	–	–		
Less UK Home Services and UK Business Services elements	1	–	(247.1)	1.6		
		(18.0)	572.3	5.5		
Gas and Electricity allocation	2	–	(44.0)	616.3	(16.1)	
21.6						
Exclude non-Generation elements of DE&P EBIT	5	55.8	–	–	–	
Add Energy Marketing & Trading (EM&T) optimisation of generation EBIT	6	(13.9)	–	–	–	
Less Non-UK provision	7	–	(2.6)	(3.3)	–	
Ofgem Consolidated Segmental Statement		23.9	(46.6)	613.0	(16.1)	
					21.6	

Ofgem Consolidated Segmental Statement (continued)

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

	Notes	Generation segment 2017	Supply segment				
			Domestic		Non-Domestic		
			Electricity 2017	Gas 2017	Electricity 2017	Gas 2017	
Depreciation and amortisation (£m)	Centrica plc Annual Report and Accounts Segmental Analysis ⁽ⁱ⁾						
	UK Home/Business	–	(158.7)		(14.3)		
	Central Power Generation	(9.6)	–		–		
	Distributed Energy & Power (DE&P)	(16.4)	–		–		
	Less UK Home Services and UK Business Services elements	1		43.5		0.2	
			(26.0)	(115.2)		(14.1)	
	Gas and Electricity allocation	2		(51.4)	(63.8)	(9.7)	(4.4)
	Include share of JVs and associates depreciation	3	(142.5)	–	–	–	–
	Exclude non-Generation elements of DE&P depreciation	5	15.5	–	–	–	–
Ofgem Consolidated Segmental Statement		(153.0)	(51.4)	(63.8)	(9.7)	(4.4)	

	Notes	Generation segment 2017	Supply segment				
			Domestic		Non-Domestic		
			Electricity 2017	Gas 2017	Electricity 2017	Gas 2017	
PAT (£m)	Centrica plc Annual Report and Accounts Segmental Analysis ⁽ⁱ⁾						
	UK Home/Business		674.0		5.3		
	Less UK Home Services and UK Business Services elements	1		(203.9)		1.2	
				470.1		6.5	
	Gas and Electricity allocation	2		(36.4)	506.5	(12.0)	18.5
	Less Non UK provision	7		(2.1)	(2.6)	–	–
	Ofgem Consolidated Segmental Statement			(38.5)	503.9	(12.0)	18.5

(i) The table above reconciles the Generation segment to Central Power Generation and Distributed Energy & Power, the Domestic Supply segment to UK Home and the Non-Domestic Supply segment to UK Business in note 4 to the 2017 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Notes:

- UK Home includes Home Services and UK Business includes Business Services which are non-licensed activities and have been deducted to reconcile these CSS numbers.
- The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT), Depreciation (including amortisation) and PAT (adjusted operating profit after tax) as provided in note 4 of the Centrica plc Annual Report and Accounts 2017, has been split between Gas and Electricity.
- £538.0 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS for Nuclear revenues. £58.0 million of EBIT in the Generation segment relates to profit from joint ventures for Nuclear. Additionally, costs relating to the Group's share of joint ventures and associates: £101.5 million direct fuel costs, £216.7 million direct costs, £19.3 million indirect costs and £142.5 million depreciation and amortisation are included. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2017 in notes 6 and 14.
- £597.1 million of intra-segment revenues, split £534.3 million between the joint ventures and associates and the Generation segment (included in the £538.0 million of joint venture and associate revenues) and £62.8 million between the CPG and EM&T segment (related to power station tolls), are excluded from the CSS.
- DE&P includes operations outside the UK. Revenues of £151.3 million, EBIT loss of £55.8 million and depreciation of £15.5 million have consequently been excluded from the Generation segment of the CSS.
- £332.6 million of revenues and an EBIT loss of £13.9 million relating to Centrica's EM&T optimisation are included in the Generation segment of the CSS.
- EBIT of £5.9 million and a post-tax gain of £4.7 million in Domestic costs arises from a provision release related to a non-UK disposal in a prior period.

Shareholder Information

General enquiries

Centrica's share register is administered and maintained by Equiniti, our Registrar, whom you can contact directly if you have any questions about your shareholding which are not answered here or on our website. You can contact Equiniti using the following details:

Address: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA United Kingdom

Telephone: 0371 384 2985*

Outside the UK: +44 (0)121 415 7061

Textphone: 0371 384 2255*

Outside the UK: +44 (0)121 415 7028

Contact: help.shareview.co.uk

Website: equiniti.com

* Calls to an 03 number cost no more than a national rate call to an 01 or 02 number. Lines open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales.

When contacting Equiniti or registering via shareview.co.uk, you should have your shareholder reference number at hand. This can be found on your share certificate, dividend confirmation or any other correspondence you have received from Equiniti.

If you hold less than 2,500 shares you will be able to change your registered address or set up a dividend mandate instruction over the phone, however, for security reasons, if you hold more than 2,500 shares, you will need to put this in writing to Equiniti.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment at a convenient time. Details of this service can be found at shareview.co.uk

American Depositary Receipt (ADR)

We have an ADR programme, trading under the symbol CPYYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available on our website or please contact:

Address: BNY Mellon Shareowner Services, PO Box 505000, Louisville, KY 40233-5000, USA

Email: shrelations@cpshareownerservices.com

Website: mybnymdr.com

Telephone: +1 888 269 2377 (toll-free in the US)

Outside the US: +1 201 680 6825

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website, centrica.com. Receiving communications and Company documents electronically saves your Company money and reduces our environmental impact. If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Accounts and Annual Review, on the day they are published. You will also receive alerts to let you know that you can cast your Annual General Meeting (AGM) vote online. You can manage your shareholding online by registering at shareview.co.uk, a free online platform provided by Equiniti, which allows you to:

- view information about your shareholding;
- have your dividend paid into your bank account;
- update your personal details; and
- appoint a proxy for the AGM.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Financial Services Limited. However, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and gives you:

- low cost share dealing rates (full details of which are available on centrica.com, together with dealing charges);
- quicker settlement periods for buying and selling shares; and
- no paper share certificates to lose.

Centrica.com

The Shareholder Centre on our website contains a wide range of information including a dedicated investors section where you can find further information about shareholder services including:

- share price information;
- dividend history;
- ownership profile;
- the Scrip Dividend Programme;
- telephone and internet share dealing;
- downloadable shareholder forms; and
- taxation.

This Annual Report and Accounts can also be viewed online by visiting centrica.com/ar17

Dividends

Centrica dividends can be paid directly into your bank or building society account instead of being despatched to you by cheque. More information about the benefits of having dividends paid directly into your bank or building society account, and the mandate form to set this up, can be found in the Investors section of our website.

If you do not have a UK bank or building society account, Equiniti is able to pay dividends in local currencies in over 90 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

ShareGift

If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate them to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at sharegift.org or by calling +44 (0)20 7930 3737.

2018 calendar

10 May 2018	Ex-dividend date for 2017 final dividend
11 May 2018	Record date for 2017 final dividend
14 May 2018	Trading Update AGM
17 May 2018	Scrip reference share price set
7 June 2018	Deadline for the receipt of scrip election forms from shareholders
28 June 2018	Payment date for 2017 final dividend
31 July 2018	Half-year results announcement
11 October 2018	Ex-dividend date for 2018 interim dividend
12 October 2018	Record date for 2018 interim dividend
17 October 2018	Scrip reference share price set
1 November 2018	Deadline for the receipt of scrip election forms from shareholders
22 November 2018	Payment date for 2018 interim dividend

Additional Information – Explanatory Notes (Unaudited)

Definitions and reconciliation of adjusted performance measures

Centrica's 2017 consolidated Group Financial Statements include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted operating profit, adjusted earnings and adjusted operating cash flow have been defined and reconciled separately in notes 2, 4 and 10 to the consolidated Group Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

EBITDA

EBITDA is the profit measure that provides the bridge between the Income Statement and the Group's key cash metrics.

Year ended 31 December		2017 £m	2016 £m	Change
Group operating profit	I/S	486	2,486	
Exceptional items and certain re-measurements before taxation	I/S	759	(1,019)	
Share of profits of joint ventures and associates, net of interest and taxation	I/S	(51)	(130)	
Depreciation and impairments of property, plant and equipment	4(d)	673	737	
Amortisation, write-downs and impairments of intangibles	4(d)	271	288	
Impairment of joint ventures and associates	14(a)	4	3	
EBITDA		2,142	2,365	(9%)

Underlying adjusted operating cash flow

Adjusted operating cash flow is the key metric used to assess the cash generating performance of the Group. Underlying adjusted operating cash flow makes further adjustments for foreign exchange and the commodity price movements that most impact the Group, which are outside its control, along with other material one-off items, to provide a comparable year-on-year measure of cash generation that more closely reflects business performance.

The calculation has been amended to make adjustments to rebase adjusted operating cash flow to reflect the prevailing foreign exchange and commodity prices in 2015 rather than those in the current reporting period. This provides a fixed reference point and prevents the need to continually recalculate the comparative periods and allows management to measure underlying adjusted operating cash flow growth since 2015, the announcement of the Strategic Review.

Year ended 31 December		2017 £m	2016 (restated) £m	Change	2015 (restated) £m
Adjusted operating cash flow	4(f)	2,069	2,686		2,253
Commodity price – E&P and Nuclear ⁽ⁱ⁾		(100)	(46)		(331)
Foreign exchange movements ⁽ⁱⁱ⁾		27	11		–
UK Business working capital impact		–	(357)		102
Underlying adjusted operating cash flow		1,996	2,294	(13%)	2,024

(i) The commodity price adjustment has been calculated by applying the average commodity price in 2015 to production and generation volumes for 2017 and 2016 net of taxation. In 2015, the commodity price has been adjusted to exclude the impacts of hedging prior to 2015 to ensure the operating cash flow reflects the prevailing average commodity price in 2015.

(ii) The foreign exchange movement has been calculated by applying the average 2015 rate to the 2017 and 2016 adjusted operating cash flow net of taxation of entities with functional currencies other than GBP.

Underlying adjusted operating cash flow is adjusted operating cash flow as defined in note 2 and reconciled in note 4(f). It has been adjusted for the impacts of commodity price movements on Exploration & Production (E&P) and nuclear assets and foreign exchange movements. It has also been adjusted for one-off working capital movements in UK Business. This follows billing performance issues after the implementation of a new system in 2014, impacting the Group's ability to collect cash from customers and therefore its adjusted operating cash flow. As a consequence, the working capital movement for UK Business has been removed from underlying adjusted operating cash flow.

E&P free cash flow

Free cash flow is used as an additional cash flow metric for the E&P business due to its asset-intensive nature. This metric provides a measure of the cash generating performance of the E&P business, taking account of its investment activity.

Year ended 31 December		2017 £m	2016 £m	Change
E&P adjusted operating cash flow	4(f)	448	655	
Capital expenditure (including small acquisitions)		(439)	(518)	
Cash acquired through Spirit Energy transaction		78	–	
Net disposals ⁽ⁱ⁾		289	29	
Free cash flow		376	166	127%

(i) 2017 net disposals include Trinidad and Tobago, Canada and NSIP (ETS) Limited (see note 12(d)) and other small E&P asset disposals. 2016 net disposals include Skene and Buckland, Trinidad and Tobago Blocks 1a and 1b, and other small E&P asset disposals.

E&P free cash flow is E&P's adjusted operating cash flow, as defined in note 2 and reconciled in note 4(f), less the business's capital expenditure and net disposals. Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, disposals of interests in joint ventures and associates, net of investments in joint ventures and associates. Cash acquired through the Spirit Energy transaction has been excluded since this is an unusual acquisition whereby there was no cash consideration and hence this has been separately highlighted in the calculation.

Return on average capital employed (ROACE)

Post-tax ROACE is one of the key performance metrics in the financial framework of the Group and represents the return the Group makes from capital employed in its wholly owned assets and its investments in joint ventures and associates.

Year ended 31 December		2017 £m	2016 £m	Change
Adjusted operating profit	4(c)	1,252	1,515	
Share of joint ventures/associates' interest and taxation	6(a)	(7)	(48)	
Taxation on profit – business performance	I/S	(191)	(282)	
Exclude taxation on interest		(81)	(120)	
Return attributable to non-controlling interests	4(c)	(7)	5	
Return		966	1,070	
Net assets	B/S	3,428	2,844	
Less: non-controlling interests	B/S	(729)	(178)	
Less: net retirement benefit obligations	22(d)	886	1,137	
Less: net cash and cash equivalents, bank overdrafts, loans and other borrowings, securities and cash posted/(received) as collateral	24(c)	2,862	3,764	
Less: derivative financial instruments	19	(370)	(280)	
Less: deferred tax (assets)/liabilities associated with retirement benefit obligations and derivative financial instruments	16	18	23	
Effect of averaging and other adjustments		780	(582)	
Average capital employed		6,875	6,728	
ROACE		14%	16%	(2ppt)

Average capital employed takes the Group's net assets excluding net debt and deducts the net retirement benefit obligation and other derivative financial instruments (together with their associated deferred tax balances) because these represent unrealised positions and therefore do not reflect true capital employed. They are also subject to market driven volatility which could materially distort the ROACE calculation.

Responsible Business – Performance Measures

Non-financial key performance indicators (KPIs)

Assurance

We engaged PricewaterhouseCoopers LLP ('PwC') to undertake a limited assurance engagement, reporting to Centrica plc only, using International Standard on Assurance Engagements ('ISAE') 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and ISAE 3410: 'Assurance Engagements on Greenhouse Gas Statements' over the KPIs on pages 31, 36, 41, 43, 70-71, 76, 85, 89 and below, that have been highlighted with the symbol '†'. They have provided an unqualified opinion in relation to the relevant KPIs and data and their full assurance opinion is available at centrica.com/assurance

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Non-financial performance information, including greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the selected responsible business information contained in the Annual Report and Accounts 2017 in the context of PwC's full limited assurance opinion and Centrica's Basis of Reporting, which is also available in the assurance section of the website set out above.



To explore our wider non-financial performance
view centrica.com/datacentre

Safety

Metric	Unit	2017	2016	What's next
Lost time injury frequency rate	Per 200,000 hours worked	0.36†	0.30 ⁽ⁱ⁾	Grow our safety culture to deliver an incident-free workplace, enabled through targeted safety interventions in key performance areas and an improved management system
Total recordable injury frequency rate	Per 200,000 hours worked	0.98†	0.98 ⁽ⁱ⁾	
Significant process safety events (Tier 1)	Number	0†	2 ⁽ⁱ⁾	Strengthen our understanding, monitoring and controls related to process safety
Process safety incident frequency rate (Tier 1 and Tier 2)	Per 200,000 hours worked	0.14†	0.33	
Road safety incident frequency rate	Per one million kilometres driven ⁽ⁱⁱ⁾	0.32	0.76	Deliver proactive driver safety programmes, based on behavioural insight and performance analysis
Fatalities	Number	0†	1 ⁽ⁱ⁾	Maintain zero fatalities by continuing to promote safety as our highest priority
Customer safety incidents	Number	27	35	Continue to deliver a strong customer safety performance by focusing on training, tools and work practices

† Included in PwC's limited assurance scope referred to above.

(i) Assured by Deloitte LLP for the Annual Report and Accounts 2016. See centrica.com/responsibilitydownloads to view Deloitte's assurance statement and Basis of Reporting.

(ii) Where actual distance travelled is not available, distance is calculated using fuel consumption and business expense claims.

Customers

Metric	Unit	2017	2016	What's next
Consumer net promoter score (NPS):⁽ⁱ⁾				
• UK Home	Number	+1[†]	+3 ⁽ⁱⁱ⁾	Continue to deliver new products and services that satisfy the changing needs of our customers while delivering a strong customer service
• North America Home		+33[†]	+32 ⁽ⁱⁱ⁾	
• Ireland		+17[†]	+20	
• Connected Home		+39[†]	+45	
Business NPS:⁽ⁱ⁾				
• UK Business	Number	-11[†]	-8 ⁽ⁱⁱ⁾	
• North America Business		+33[†]	+31 ⁽ⁱⁱ⁾	
Vulnerable households helped by UK Home initiatives ⁽ⁱⁱⁱ⁾	Number	741,721	964,670	Continue to ensure customers in vulnerable circumstances receive the help they need to stay warm, safe and debt-free
Smart meter installations (UK Home and UK Business)	Number (cumulative since 2009)	4,703,566	3,851,990	Maintain industry leadership in smart meter installation and transition to an enduring delivery infrastructure to meet the mandated roll-out by 2020

† Included in PwC's limited assurance scope referred to on page 218.

(i) NPS measures customer satisfaction and in 2017, the methodology was implemented consistently across the UK, Ireland and North America. Prior year figures have been restated where applicable.

(ii) Values previously reported were assured by Deloitte LLP for the Annual Report and Accounts 2016 – UK & Ireland Home: +4 and UK & Ireland Business: -16 while North America Home and North America Business are as previously reported. Data relating to Ireland was not assured by Deloitte LLP.

(iii) Methodology was improved in 2017 to no longer include customers on the Priority Services Register; a list including potentially vulnerable customers who may require extra support but may not have needed to receive help with their energy during the period. Prior year figure has been restated.

Employees

Metric	Unit	2017	2016	What's next
Employee engagement ⁽ⁱ⁾	Percentage favourable	52[†]	–	Take action to improve engagement and strive towards exceeding the IBM external global benchmark
Diversity				
• Female and male employees	Percentage	29 female[†] 71 male[†]	29 female 71 male	Continue to improve gender balance and our female talent pipeline across the business, including at a senior leadership and Board level
• Female senior management		28[†]	26	
• Gender pay gap ⁽ⁱⁱ⁾		12 mean 30 median	– –	
Retention	Percentage	85.8[†]	81.4	Improve retention levels following the restructuring of our business through effective management and monitoring
Absence	Days per full time employee ⁽ⁱⁱⁱ⁾	14.8[†]	11.6	Focus on driving down absence through good management practices, including proactive intervention and preventative action
Total employee volunteering hours ^(iv)	Number	57,340	53,513	Grow the skills of our people and make a strong impact in local communities through volunteering

† Included in PwC's limited assurance scope referred to on page 218.

(i) Measurement in 2017 moved to a new provider to enable best practice external benchmarking. Due to changes in methodology, the 2017 target is no longer applicable and providing a direct prior year comparative is not possible. However, based on a comparison of employee responses to like-for-like engagement questions, our performance improved 6% in 2017 from 2016 (see page 85). Performance in 2016 was previously assured by Deloitte LLP for the Annual Report and Accounts 2016 – 4.31 out of 6.

(ii) Data based on 5 April 2017 snapshot for UK employees and constitutes our first year of reporting. Read our Gender Pay Statement to find out more at centrica.com/genderpay

(iii) Relates to absence from sickness rather than wider forms of absence such as bereavement.

(iv) Includes volunteering during and outside business hours when enabled by Centrica.

Responsible Business – Performance Measures (continued)

Carbon emissions

Metric	Unit	2017	2016	What's next
Total carbon emissions ⁽ⁱ⁾	tCO ₂ e	4,103,348[†]	5,073,320 ⁽ⁱⁱ⁾	Continue to adopt best practice in monitoring and reporting our global carbon emissions, while analysing the long-term impact of our strategy
Scope 1 emissions	tCO ₂ e	4,044,754[†]	4,986,299 ⁽ⁱⁱ⁾	Continue to take proactive steps to reduce our carbon emissions through innovation, technology and cultural change
Scope 2 emissions	tCO ₂ e	58,594[†]	87,022 ⁽ⁱⁱ⁾	Maintain the reduction of emissions associated with our use of electricity, particularly as part of our internal carbon footprint target
Total carbon intensity by revenue	tCO ₂ e / £	146	187 ⁽ⁱⁱⁱ⁾	Continue to analyse the impact of our strategic plans on our carbon intensity
Internal carbon footprint (core property, fleet and travel)	tCO ₂ e	75,706[†] (18% reduction against target)	84,989 ^(iv) (8% reduction against target)	Review our 2025 target, following the restructuring of our business Our target is to reduce our core internal carbon footprint by 20% to 73,547tCO ₂ e by the end of 2025 (baseline: 2015)
Carbon intensity of Central Power Generation	gCO ₂ /kWh	125	137 ^(v)	Review the metric, target and long-term environmental goals in our Central and Distributed Energy & Power businesses Our target was to reduce our Central Power Generation carbon intensity by 55% to 200gCO ₂ /kWh by the end of 2020 (baseline: 2008)
Total customer carbon savings from measures installed	tCO ₂ e (cumulative since 2008)	30,853,738^(vi)	26,509,236 ^(vii)	Continue to gain insights from the metric in order to better understand how our energy generation and efficiency products can help our customers reduce their environmental impact

† Included in PwC's limited assurance scope referred to on page 218.

(i) Comprises of Scope 1 and Scope 2 emissions as defined by the Greenhouse Gas Protocol.

(ii) Restated due to availability of improved data. Values previously reported were assured by Deloitte LLP for the Annual Report and Accounts 2016 – Total carbon emissions: 5,119,709tCO₂e, Scope 1 emissions: 5,032,493tCO₂e and Scope 2 emissions: 87,216tCO₂e.

(iii) Restated due to availability of improved data.

(iv) Restated due to availability of improved data and divestments.

(v) Assured by Deloitte LLP for the Annual Report and Accounts 2016.

(vi) Comprising of 93% mandatory and 7% voluntary initiatives. A growing share of carbon savings are generated from voluntary initiatives in recent years, reflected by over a third of savings arising from voluntary products and services in 2017.

(vii) Restated due to availability of improved data. Comprising of 94% mandatory and 6% voluntary initiatives. UK value previously reported was assured by Deloitte LLP for the Annual Report and Accounts 2016 – 26,786,285tCO₂e.

Community

Metric	Unit	2017	2016	What's next
Total community contributions	£ million	155.5⁽ⁱ⁾	201.4 ⁽ⁱⁱ⁾	Make a meaningful difference in the communities where we live and work
Average sustainability risk rating of assessed suppliers	Risk score out of 100 ⁽ⁱⁱⁱ⁾	56 (low risk)	57 (low risk)	Continue to assess sustainability risks among our strategic and higher risk suppliers

(i) Comprising of £141.9 million in mandatory and £9.3 million in voluntary contributions which largely support vulnerable customers, £3.6 million in charitable donations calculated using the London Benchmarking Group methodology (LBG) alongside £0.7 million in leverage which encompasses employee fundraising. The reduction in mandated contributions is predominantly due to phasing of the Energy Company Obligation.

(ii) Comprising of £188.2 million in mandatory and £7.4 million in voluntary contributions which largely support vulnerable customers, £5.0 million in charitable donations calculated using the LBG methodology alongside £0.8 million in leverage which encompasses employee fundraising.

(iii) A score near 100 is low risk. High risk companies have limited or no tangible actions on sustainability, medium risk companies take partial tangible action on selected sustainability issues, low risk companies have a structured sustainability approach with policies and action to manage major sustainability issues while lowest risk companies have strong sustainability credentials and reporting embedded across their business.

CENTRICA PLC

[centrica.com](https://www.centrica.com)

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Company registered
in England and Wales
No. 3033654



Glossary

\$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
AGR	Advanced gas-cooled reactor
AIP	Annual Incentive Plan
AOCF	Adjusted operating cash flow
bbl	Barrels of oil
bcf	Billion cubic feet
BSUoS	Balancing services use of system
CCGT	Combined cycle gas turbine
CGU	Cash generating unit
CHP	Combined heat and power
CO ₂ e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO ₂ e (carbon dioxide equivalent)
CPI	Consumer Price Index
CSS	Consolidated Segmental Statement
CUPS DB	Centrica Unfunded Pension Scheme defined benefit
CUPS DC	Centrica Unfunded Pension Scheme defined contribution
Data analytics	The process of examining data sets to draw conclusions and insights about the information they contain
DEEPAC	Direct Energy Employee Political Action Committee
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBT	Employee Benefit Trust
ECO	Energy Company Obligation
EP	Economic profit
EPS	Earnings per share
EU ETS	European Union Emissions Trading Scheme
FCA	Financial Conduct Authority
FFS	Fixed-fee service
FIT	Feed-in tariff
FRS	Financial Reporting Standards
FVLCD	Fair value less costs of disposal
gCO ₂ /kWh	Grammes of carbon dioxide per kilowatt hour
GDPR	General Data Protection Regulation
GW	Gigawatt
GWh	Gigawatt hours
HVAC	Heating, ventilation and air conditioning
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IPIECA	International Petroleum Industry Environmental Conservation Association
ISA	International Standards in Auditing
KPI	Key performance indicators
kW	Kilowatt
kWh	Kilowatt hour
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate
Machine learning	Artificial intelligence (AI) that provides computers with the ability to learn, without being programmed

mmboe	Million barrels of oil equivalent
mmth	Million therms
mtCO ₂ e	Million tonnes of carbon dioxide equivalent
MW	Megawatt
MWh	Megawatt hour
MWp	Megawatt peak
NBV	Net book value
NGO	Non-governmental organisation
NLF	Nuclear Liabilities Fund
nm	Not measured
NPS	Net promoter score
OECD	Organisation for Economic Cooperation and Development
OTC	Over the counter
PAC	Political Action Committee
PIE	Pensions increase exchange
PPA	Power purchase agreement
PP&E	Property, plant and equipment
ppt	Percentage point
PRA	Prudential Regulation Authority
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRT	Petroleum Revenue Tax
PWR	Pressurised water reactor
QPI	Qatar Petroleum International
RBD	Reconciliation by difference
ROACE	Return on average capital employed
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
RRJ	Risk Requiring Judgement
RRS	Risk Requiring Standards
SBR	Supplementary Balancing Reserve
SBU	Standard bundled unit
SHESEC	Safety, Health, Environment, Security and Ethics Committee
STOR	Short Term Operating Reserve
SVT	Standard variable tariff
tCO ₂ e	Tonnes of carbon dioxide equivalent
the Code	The UK Corporate Governance Code set of principles and provisions issued by the Financial Reporting Council
TRIFR	Total Recordable Injury Frequency Rate
TSR	Total shareholder return
TWh	Terawatt hour
VAT	Value added tax
VIU	Value in use
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute



Designed by SALTERBAXTER MSL

This report is printed on recycled silk papers made from 100% pre and post-consumer waste. The paper mills are based in the European Union and manufacture papers independently audited and certified by the Forest Stewardship Council® (FSC®) and accredited to the Environmental Management System 14001.

Printed by CPI Colour Limited ISO14001, FSC® certified and CarbonNeutral®.

Disclaimer

This Annual Report and Accounts does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This Annual Report and Accounts contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

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