

# 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 8 to 10.

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 8 to 10.

### 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 8 to 10 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 8 to 10 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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF CENTRICA PLC AND ITS LICENSEES

### Use of this report

This report is made solely to the Company's Director's, 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 [www.centrica.com](http://www.centrica.com)<sup>(i)</sup>, 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 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.

# Ofgem Consolidated Segmental Statement (continued)

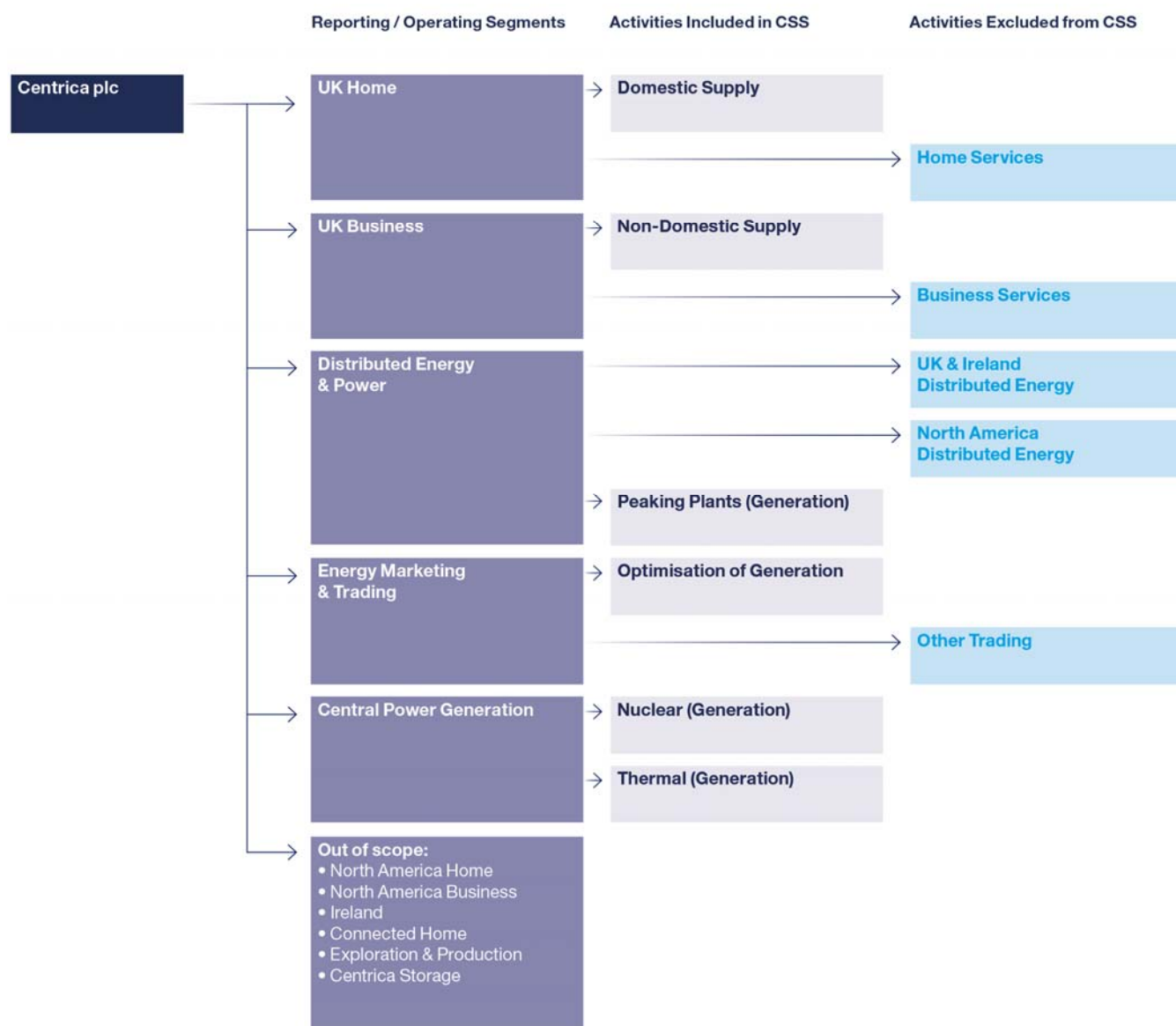
## INTRODUCTION

The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 3 to 12 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 Preliminary Results 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 Preliminary Results 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 Preliminary Results 2017 provide operating segment results in note 5. A full reconciliation between the relevant operating segment results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.



## CENTRICA PLC OPERATIONAL REPORTING STRUCTURE

Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Preliminary Results 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 <sup>(i)</sup>	Supply	100%
Centrica Langage Limited <sup>(ii)</sup>	Generation	100%
Centrica SHB Limited <sup>(ii)</sup>	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 <sup>(iii)</sup>	Generation	50% Joint venture
EDF Energy Nuclear Generation Limited <sup>(iv)</sup>	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 (continued)

### 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	
<b>Total revenue</b>	£m	<b>548.1</b>	<b>367.2</b>	<b>–</b>	<b>915.3</b>	<b>3,100.5</b>	<b>1,379.6</b>	<b>3,972.8</b>	<b>419.5</b>	<b>8,872.4</b>
Sales of electricity & gas	£m	537.1	340.4	–	<b>877.5</b>	3,009.7	1,379.6	3,891.8	419.5	<b>8,700.6</b>
Other revenue	£m	11.0	26.8	–	<b>37.8</b>	90.8	–	81.0	–	<b>171.8</b>
<b>Total operating costs</b>	£m	<b>(343.5)</b>	<b>(394.9)</b>	<b>–</b>	<b>(738.4)</b>	<b>(3,095.7)</b>	<b>(1,386.0)</b>	<b>(3,296.0)</b>	<b>(393.5)</b>	<b>(8,171.2)</b>
Direct fuel costs	£m	(101.5)	(208.0)	–	<b>(309.5)</b>	(1,065.8)	(574.3)	(1,448.7)	(209.4)	<b>(3,298.2)</b>
Direct costs	£m	(216.7)	(153.0)	–	<b>(369.7)</b>	(1,472.0)	(662.4)	(1,117.1)	(113.7)	<b>(3,365.2)</b>
Network costs	£m	(43.7)	(29.8)	–	<b>(73.5)</b>	(871.2)	(349.9)	(1,027.8)	(88.7)	<b>(2,337.6)</b>
Environmental and social obligation costs	£m	–	(66.0)	–	<b>(66.0)</b>	(559.1)	(286.3)	(48.8)	–	<b>(894.2)</b>
Other direct costs	£m	(173.0)	(57.2)	–	<b>(230.2)</b>	(41.7)	(26.2)	(40.5)	(25.0)	<b>(133.4)</b>
Indirect costs	£m	(25.3)	(33.9)	–	<b>(59.2)</b>	(557.9)	(149.3)	(730.2)	(70.4)	<b>(1,507.8)</b>
<b>WACOF/E/G</b>	£/MWh, P/th	<b>(7.9)</b>	<b>(36.5)</b>	<b>–</b>	<b>N/A</b>	<b>(51.5)</b>	<b>(50.8)</b>	<b>(45.3)</b>	<b>(48.0)</b>	<b>N/A</b>
<b>EBITDA</b>	£m	<b>204.6</b>	<b>(27.7)</b>	<b>–</b>	<b>176.9</b>	<b>4.8</b>	<b>(6.4)</b>	<b>676.8</b>	<b>26.0</b>	<b>701.2</b>
DA	£m	(142.5)	(10.5)	–	<b>(153.0)</b>	(51.4)	(9.7)	(63.8)	(4.4)	<b>(129.3)</b>
<b>EBIT</b>	£m	<b>62.1</b>	<b>(38.2)</b>	<b>–</b>	<b>23.9</b>	<b>(46.6)</b>	<b>(16.1)</b>	<b>613.0</b>	<b>21.6</b>	<b>571.9</b>
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

<b>Supply EBIT</b>	margin	<b>(1.5)%</b>	<b>(1.2)%</b>	<b>15.4%</b>	<b>5.1%</b>	<b>6.4%</b>
<b>Supply PAT</b>	£m	<b>(38.5)</b>	<b>(12.0)</b>	<b>503.9</b>	<b>18.5</b>	<b>471.9</b>
<b>Supply PAT</b>	margin	<b>(1.2)%</b>	<b>(0.9)%</b>	<b>12.7%</b>	<b>4.4%</b>	<b>5.3%</b>

### 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
<b>Supply EBIT</b>	margin	<b>(3.9)%</b>	<b>0.1%</b>	<b>15.1%</b>	<b>8.9%</b>	<b>6.2%</b>				
<b>Supply PAT</b>	£m	<b>(105.3)</b>	<b>1.6</b>	<b>567.7</b>	<b>40.5</b>	<b>504.5</b>				
<b>Supply PAT</b>	margin	<b>(3.3)%</b>	<b>0.1%</b>	<b>12.6%</b>	<b>7.5%</b>	<b>5.2%</b>				

(i) The Nuclear and Thermal segments represent conventional electricity generation.

## 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.

## Ofgem Consolidated Segmental Statement (continued)

### BUSINESS FUNCTIONS TABLE

#### Year ended 31 December 2017 – analysis of business functions <sup>(i)</sup>

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) <sup>(ii)</sup>
Holds unhedged positions (either short or long)	✓	✓	✓ <sup>(ii)</sup>
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	–	✓ <sup>(ii) (iii)</sup>
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓ <sup>(iv)</sup>	✓ <sup>(iv)</sup>	✓ <sup>(iv)</sup>
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	–	✓	–

<sup>(i)</sup> The table reflects the business functions that impact our UK segments.

<sup>(ii)</sup> 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).

<sup>(iii)</sup> '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.

<sup>(iv)</sup> 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.

## 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 Preliminary Results 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 note 4 of the Centrica plc Preliminary Results 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.
- 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 and 3 of the Centrica plc Preliminary Results 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.



## Ofgem Consolidated Segmental Statement (continued)

### 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.

## 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 5(c) of the Centrica plc Preliminary Results 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 4, with the exception of our investment in Lincs Winds 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 Preliminary Results 2017 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 6 in the Centrica plc Preliminary Results 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 Centrica plc Preliminary Results 2017 has been included in accordance with paragraphs 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

## Ofgem Consolidated Segmental Statement (continued)

### RECONCILIATION TO CENTRICA PLC PRELIMINARY RESULTS

The reconciliation refers to the segmental analysis in the Centrica plc Preliminary Results 2017 in note 5.

	Notes	Generation segment 2017	Supply segment				
			Domestic		Non-Domestic		
			Electricity 2017	Gas 2017	Electricity 2017	Gas 2017	
Revenue (£m)	<b>Centrica plc Preliminary Results Segmental Analysis <sup>(i)</sup></b>						
	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	–	–	–	–
	<b>Ofgem Consolidated Segmental Statement</b>		915.3	3,100.5	3,972.8	1,379.6	419.5

EBIT (£m)	<b>Centrica plc Preliminary Results Segmental Analysis <sup>(i)</sup></b>						
	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)	–	–
	<b>Ofgem Consolidated Segmental Statement</b>		23.9	(46.6)	613.0	(16.1)	21.6

## RECONCILIATION TO CENTRICA PLC PRELIMINARY RESULTS

	Notes	Generation segment 2017	Supply segment			
			Domestic		Non-Domestic	
			Electricity 2017	Gas 2017	Electricity 2017	Gas 2017
Depreciation and amortisation (£m)	<b>Centrica plc Preliminary Results Segmental Analysis <sup>(i)</sup></b>					
	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	–	–	–
	<b>Ofgem Consolidated Segmental Statement</b>		(153.0)	(51.4)	(63.8)	(9.7)

PAT (£m)	<b>Centrica plc Preliminary Results Segmental Analysis <sup>(i)</sup></b>					
	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)	–	–
<b>Ofgem Consolidated Segmental Statement</b>		(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 5 to the Centrica plc Preliminary Results 2017. Also included in note 5 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 5 of the Centrica plc Preliminary Results 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 Preliminary Results 2017 in note 12.
- £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.