Preliminary results for the year ended 31 December 2016

IAIN CONN, GROUP CHIEF EXECUTIVE

"2016 was a year of robust performance and progress in implementing our customer-focused strategy. We delivered our key objectives including improved customer service and more innovative offerings and solutions – while repositioning the portfolio, building capability and driving significant cost efficiencies. 2016 was a busy year for the team, but we have delivered a lot, and Centrica enters 2017 a stronger company – with encouraging underlying momentum and positioned to deliver longer-term returns and growth."

HEADLINES

Customer-led strategic repositioning on track

- Shift in investment towards customer-facing activities from E&P and Central Power Generation.
- New offers in energy and services focused on delivering choice, improved engagement and loyalty.
- Investment in customer service resulting in lower complaints and improved NPS.
- UK energy supply accounts broadly flat in H2 2016 after a 3% reduction in H1 2016.
- In Connected Home 527,000 hubs installed at the end of 2016. Hive brand introduced into North America.
- B2B acquisitions have added leading capabilities and are performing ahead of expectations.
- Establishment of 'Centrica Innovations' to drive growth and access new technology and innovation.
- E&P capital expenditure down 28% to £518m, within the £400m-£600m targeted range.
- Exit from wind power generation ownership completed with sale of Lincs windfarm; Trinidad & Tobago E&P divestment announced; Canada E&P sale targeted for 2017.

Robust financial performance

- Adjusted operating profit and adjusted earnings both up 4%, adjusted EPS of 16.8p.
- Adjusted operating cash flow up 19% to £2,686m, including £357m working capital inflow in UK Business.
- Underlying adjusted operating cash flow growth of 14%.
- Efficiency programme delivery of £384m of cost savings and over 3,400 like-for-like reduction in direct headcount in 2016, both ahead of target. A further £250m of efficiency programme delivery expected in 2017.
- E&P £166m free cash flow positive reflecting reduced capex and lower cash production costs.
- Net debt down 27% to under £3.5bn.

Outlook and 2017 targets – returns and growth

- Continued confidence in at least 3-5% per annum underlying adjusted operating cash flow growth on average 2015-20, underpinned by strong delivery in 2016.
- Adjusted operating cash flow expected to exceed £2bn in 2017; capital expenditure to be limited to £1bn.
- Having built base capabilities, around £100m of incremental revenue investment in growth expected in 2017.
- Full year dividend of 12.0p. In the prevailing environment, restoration of a progressive dividend currently expected when Group net debt is in the range £2.5-£3.0bn, a level targeted by the end of 2017.
- Global Consumer and Business divisions formed to enable a more coherent approach to the end-customer.
- Capital Markets Day on 21 June 2017 to provide additional insight into Consumer and Business strategies.

GROUP FINANCIAL SUMMARY

Year ended 31 December	**2016**	2015	Change
Revenue	**£27.1bn**	£28.0bn	(3%)
Adjusted operating profit	**£1,515m**	£1,459m	4%
Adjusted earnings	**£895m**	£863m	4%
Adjusted basic earnings per share (EPS)	**16.8p**	17.2p	(2%)
Full year dividend per share	**12.0p**	12.0p	0%
Adjusted operating cash flow	**£2,686m**	£2,253m	19%
Group net debt	**£3,473m**	£4,747m	(27%)
ROACE (post-tax)	**16%**	12%	4ppt
Statutory operating profit / (loss)	**£2,486m**	(£857m)	nm
Statutory profit / (loss) for the year attributable to shareholders	**£1,672m**	(£747m)	nm
Net exceptional items after taxation included in statutory profit / (loss)	**£27m**	(£1,846m)	nm
Basic earnings per share	**31.4p**	(14.9p)	nm

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the announcement are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 8 to 10. See also notes 2, 5 and 10 to the Financial Statements and pages 71 to 72 for an explanation of the use of adjusted performance measures.

Group Metrics

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.98**	1.10	(11%)
Brand Net Promoter Score (NPS) [1]			
Home			
UK & Ireland	**4**	(7)	11pt
North America	**32**	n/a	nm
Business			
UK & Ireland [2]	**(16)**	(19)	3pt
North America	**31**	20	11pt
Customer account holdings ('000s) (year end)			
Home [3]	**26,196**	27,069	(3%)
Business	**1,348**	1,396	(3%)
Total customer energy consumption			
Gas (mmth)	**12,022**	12,177	(1%)
Electricity (GWh)	**144,810**	151,595	(4%)
Energy use per residential energy customer (kWh)			
UK & Ireland	**8,731**	8,518	3%
North America	**23,056**	23,800	(3%)
Annualised cost per Home customer (£) [4]			
UK & Ireland	**99**	99	0%
North America	**198**	192	3%
Cumulative hubs installed (Connected Home) ('000s)	**527**	292	80%
Active customer sites (DE&P)	**3,924**	2,536	55%
Growth revenue (Connected Home, DE&P) (£m) [5]	**194**	114	70%
E&P total production volumes (mmboe)	**71.2**	78.6	(9%)
Adjusted operating costs (£m) [6]	**2,537**	2,736	(7%)
Adjusted operating costs as a % of gross margin	**58%**	63%	(5ppt)
Direct Group headcount (year end) [7]	**36,494**	39,389	(7%)
Adjusted operating cash flow (£m)	**2,686**	2,253	19%
Underlying adjusted operating cash flow growth [8]	**14%**	n/a	nm
Group net investment (£m) [8]			
Capital expenditure (including small acquisitions)	**842**	1,049	(20%)
Material acquisitions (>£100m)	**322**	-	nm
Net disposals	**(125)**	(194)	(36%)
Group net investment (£m)	**1,039**	855	22%
ROACE (post-tax) [8]	**16%**	12%	4ppt
Adjusted operating profit (£m)	**1,515**	1,459	4%
Adjusted earnings (£m)	**895**	863	4%
Adjusted earnings per share (pence)	**16.8p**	17.2p	(2%)

1. Brand NPS has been implemented consistently in the UK, Ireland and North America from 2016. Prior period comparatives are presented where available.
2. Brand NPS for Business energy supply in Ireland is not currently reported. Reflecting this, the stated metric represents UK Business only.
3. Home customer account holdings now include Home Insurance holdings in UK Home Services that were not previously reported. 2015 holdings have been restated accordingly.
4. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) as a proportion of holdings, installs and on demand jobs.
5. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.
6. Adjusted operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, portfolio changes including AlertMe, Neas Energy and ENER-G Cogen acquisition costs and foreign exchange movements. Total like-for-like controllable costs as referenced in the Group Overview and Business Review sections is adjusted operating costs and controllable cost of sales, excluding growth investment in Connected Home and Distributed Energy & Power.
7. Direct Group headcount excludes contractors, agency and outsourced staff. 2015 has been restated to include North America DE&P.
8. See pages 71 to 72 for an explanation of the use of adjusted performance measures.

ENQUIRIES

Investors and Analysts:	Martyn Espley	tel: +44 (0)1753 494900	email: ir@centrica.com
Media:	Sophie Fitton	tel: +44 (0)1784 843000	email: media@centrica.com

Interviews with Iain Conn (Group Chief Executive) and Jeff Bell (Group Chief Financial Officer) are available on www.centrica.com

Group Overview

SIGNIFICANT STRATEGIC PROGRESS AND ROBUST FINANCIAL PERFORMANCE

Centrica has made significant progress in implementing its customer-facing strategy, which was set out in July 2015. We have delivered improved service levels, more innovative customer offers and solutions, and are creating an exciting platform for growth through the enhancement of our digital and technology capabilities. These achievements came alongside the progress we made in repositioning our portfolio, including reducing scale in E&P and Central Power Generation, and delivering material cost efficiencies across the Group. Centrica delivered a robust financial performance in 2016, with increased adjusted operating profit and earnings, underlying adjusted operating cash flow growth of 14% and a substantial reduction in net debt.

Safety and compliance remains our top priority. The Group's total recordable injury frequency rate reduced by 11% compared to 2015. However there were two Tier 1 process safety incidents across the Group during the year, up from one last year, and improving our performance in this area remains a key focus.

CUSTOMER-LED STRATEGIC REPOSITIONING ON TRACK

Centrica's customer-facing activities are a real source of competitive advantage given our distinctive positions and capabilities. As a result, in line with our strategy we are shifting investment towards our customer-facing businesses – Energy Supply, Services, Connected Home, Distributed Energy & Power and Energy Marketing & Trading. We are focused on delivering high levels of customer service, improving customer engagement and loyalty, and developing innovative products, offers and solutions for both B2C and B2B customers, underpinned by investment in technology.

With the emphasis on our customer-facing activities, we are also reducing the size of and investment in our more capital-intensive asset businesses, E&P and Central Power Generation. We have announced disposals totalling around £380m towards our £500m-£1bn target range, and E&P capital expenditure was in the £400m-£600m range set out as part of the 2015 strategy.

Reflecting this increasing focus on home and business end-users and the recognition of the similarity of customer trends in all countries in which we operate, we announced in February 2017 that we were forming global Consumer and Business divisions. Mark Hodges, currently Chief Executive, Energy Supply and Services, UK and Ireland will become Chief Executive, Centrica Consumer, with responsibility for our UK Home, Ireland, North America Home and Connected Home business units. Mark Hanafin, currently Chief Executive, Energy Production, Trading and Distributed Energy, will become Chief Executive, Centrica Business, with responsibility for UK Business, North America Business, Distributed Energy & Power, Energy Marketing & Trading and Central Power Generation. E&P and Centrica Storage will be managed as separate business units. The reorganisation enables a more coherent approach to the end-customer and ensures that capability is developed globally and efficiently in support of our customer-facing strategy.

We made significant progress in implementing the strategy in 2016.

Consumer strategic progress

- Consumer strategy developed around five areas of offer – energy supply, services, peace of mind, home energy management and home automation. Delivery through our customer-facing UK Home, Ireland, North America Home and Connected Home business units.
- Excellent customer service a core requisite. Investment in customer service and digital capability resulted in lower complaints and higher NPS scores across all geographies in 2016.
- Development of new offers in energy and services to drive customer engagement and reward customer loyalty. Focus is increasingly on offering differentiated solutions through enhanced customer segmentation.
- Installed 3.3m residential smart meters in the UK to date, significantly more than any other supplier, helping to improve customer engagement through more accurate bills and energy insights while enabling dynamic and flexible time-based offers such as our 'FreeTime' tariff.
- Utilised our proprietary Connected Home platform, Honeycomb, with 527,000 Hive hubs installed.
- Launched four new Hive products in 2016. Ability to interlink products and set 'recipes', responding to customer demand to have greater control of their home.
- Partnered with Amazon Echo, as their smart home launch partner in the UK, allowing our Hive customers to control their home through the Alexa voice assistant.
- Launched 'Boiler IQ', the UK's first subscription-based connected boiler product that intelligently uses sensors to remotely identify faults, creating a unique customer service experience.

Group Overview continued

- Delivering full launch of our Hive product range in North America in H1 2017, having utilised our technological capability to configure the smart thermostat for US and Canadian households.
- Launch of further innovative products, offerings and solutions expected throughout 2017, including remote water leak detection technology acquired through Flowgem acquisition.
- Targeting 1m Connected Home installed hubs by the end of 2017.

Business strategic progress

- Business strategy developed around five areas of offer – energy supply, wholesale energy, energy insights, energy optimisation and energy solutions. Delivery through our customer-facing UK Business, North America Business, Distributed Energy & Power and Energy Marketing & Trading business units.
- Provided energy insights to a diverse range of B2B customers, significantly improving their energy and operational efficiency through the use of technology acquired as part of the 2015 Panoramic Power acquisition.
- Acquisition of Neas Energy, one of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets, bringing value to B2B customers by connecting and aggregating their energy loads and resources in electricity markets.
- Acquisition of ENER-G Cogen, an established international supplier and operator of flexible CHP solutions which provide more efficient power generation for B2B customers. Complements Centrica's existing capability in installing and managing distributed systems in the UK and North America.
- Announced a pioneering trial to develop a local energy market in Cornwall to test the use of flexible demand, generation and storage, enabling customers to use the latest smart technologies and sell their flexible energy capacity to both the grid and wholesale energy market.
- Awarded capacity market agreements starting in October 2020 for a 49MW battery storage facility at Roosecote and two 50MW fast response distributed generation gas-plants at Brigg and Peterborough.
- Continued to build our capability and expand our global presence in LNG and during the year we signed agreements with two of Japan's largest utilities, Tokyo Gas Co Ltd and JERA.

Reducing scale in E&P and Central Power Generation

- E&P capital expenditure down 28% to £518m; unit lifting and other cash production costs down 20% compared to 2015 and total lifting and other cash production costs around £350m lower than 2014, in excess of our original £200m target.
- Focus on the most attractive E&P development projects in our portfolio. First gas from Cygnus field in December; Maria project on track and Oda project approved in H2 2016.
- Announced divestment of Trinidad and Tobago gas assets and disposal of Canadian E&P assets targeted in 2017 as we move to a smaller business producing between 40-50mmboe per annum.
- Completed exit from wind power generation ownership with the disposals of the GLID wind farm joint venture for £116m in 2016, and the Lincs wind farm for £224m in February 2017.
- Closure of the Killingholme gas-fired power station in March.

CENTRICA INNOVATIONS

In February 2017 we announced the establishment of a new venture, 'Centrica Innovations', which has been set up to ensure that Centrica is aligned to the new technology and innovations that will help us meet the changing needs of our customers and drive growth. It will be complementary to our existing businesses already looking at technology, such as Connected Home and Distributed Energy & Power, and will look to embed innovation into Centrica's culture, providing growth options that could become a competitive advantage.

Centrica Innovations will focus on growing our innovation capability through the scanning of selected key technology hubs around the world, putting Centrica at the forefront of the latest innovations. We will invest up to £20m per year over the next five years – up to £100m in total – in start-ups, giving us access to technology and entrepreneurial resources.

Centrica Innovations will also support existing in-house ventures such as our digital on-demand services proposition, Local Heroes, accelerating development by providing tools and methodologies to support rapid growth – for example lean start-up approaches, performance expectations and measurement frameworks. It will also act as an 'incubator' for external ventures which are not yet at a maturity level for investment and require different types of support, for example business expertise, mentoring or product piloting.

STRONG EFFICIENCY PROGRAMME DELIVERY

We made strong progress with our cost programme in 2016, delivering £384m of efficiencies in the first year of the five year programme, more than half of the targeted annual savings of £750m by 2020. This is in addition to cost savings realised in H2 2015, and already included in our 2015 controllable cost baseline of £5bn. After taking into account the impact of inflation and other cost reductions which are one-off in nature or volume driven, like-for-like controllable costs reduced by 10% compared to 2015. Reported business performance operating costs were broadly flat as the Group absorbed the effects of inflation, significant foreign exchange movements and additional revenue investment in our Connected Home and Distributed Energy & Power businesses.

Delivering this scale of efficiencies has required a fundamental shift in the way Centrica operates and significant effort has gone into delivering the required changes. We are implementing a new organisational structure across our customer-facing businesses, meaning we are able to serve customers more effectively as well as reduce costs and headcount. We have streamlined sales channels and processes in both the UK and North America, and have reduced and simplified management layers across the Group. This has led to productivity increases and headcount reductions, and enabled common operating approaches across all our markets, as we leverage our international scale. We also delivered significant efficiencies in E&P reflecting supply chain improvements and headcount reduction as a result of moving the business from a regional to an asset-based structure. In addition, we have created global functions in our large support activities such as IT, Procurement, Finance and HR which were previously embedded in the business units, unlocking further efficiencies by avoiding duplication and driving simplification and standardisation.

As a result of the actions we have taken, direct like-for-like headcount reduced by over 3,400 in 2016, more than half of the expected total reduction of around 6,000 over the duration of the efficiency programme. These exclude additional roles created in smart metering and our growth businesses.

We also delivered significant savings in third party costs during the year. The creation of a global IT function has enabled us to consolidate our existing suppliers and renegotiate key supplier contracts, while the creation of a global procurement function has provided a central view of all expenditure, enabling us to leverage existing contracts and deliver further savings, particularly in E&P.

We expect to deliver a further £250m of efficiency savings in 2017, with direct like-for-like headcount expected to reduce by around a further 1,500 by the end of 2017. These savings will come from a combination of 2016 annualised benefits and further initiatives in 2017. These include our focus on transforming our customer operations, using enhanced digital capabilities to deliver market leading and lower cost customer service and the increased flexibility of our field operations activities in the UK, as we create a more integrated model to drive efficiency and further supply chain improvements. We also expect the embedding of our global support functions to drive further savings over and above those achieved in 2016 as we implement further efficiency opportunities.

UK ENERGY SUPPLY MARKET

In June, the Competition and Markets Authority (CMA) published the final report on its thorough and in-depth two year investigation into the UK energy market. We believe that many of the remedies will further enhance the market and we are working with all interested parties to implement them to deliver the best outcome for our customers. One of the CMA's remedies was to set a tariff cap for prepayment customers, effective from April 2017. The level of this cap was set in February 2017 and we currently forecast that moving our tariffs to be in line with this cap will negatively impact 2017 gross revenue by around £50m.

The UK energy supply market is highly competitive, with over 50 suppliers. Over the past two years the market has seen increased customer activity, with levels of customer switching up 50% over this period. Against this backdrop we are focused on delivering high quality customer service, innovative offers tailored for different customer segments and cost efficiency to aid competitive pricing. In Q1 2016 we reduced our residential gas tariffs by 5% and British Gas currently has one of the cheapest standard variable dual fuel tariffs in the market. Our pricing position, combined with the launch of new competitively priced customer offers, helped us to stabilise our UK Home energy customer account holdings in H2 2016. This followed a 3% reduction in H1 2016, which included the impact of a significant roll-off of long-term contracts and regulatory constraints on offer innovation.

Group Overview continued

We also made a number of commitments to our British Gas customers coming into the winter of 2016. These included leaving our domestic standard variable tariff unchanged until at least April 2017, and in early February we extended this price freeze to August 2017, and ensuring that existing customers have access to the same energy deals as new customers. In December, we also launched a tariff which allows customers to fix their energy prices through three consecutive winters, until March 2019.

Our improved understanding of our customers' needs and requirements, combined with the relaxation of the four tariff restriction, is allowing us to be more innovative in how we reward our loyal customers whilst attracting new customers to our brand. We will increasingly use this insight to exercise choice in the digital enabled sales channels to ensure offers are value enhancing to both the company and consistent with our customer commitments. In Q4 2016 we engaged with 500,000 of our standard variable tariff customers, testing a range of propositions and offers. Using this insight we have announced the launch of 'British Gas Rewards', which will be available to all residential energy and services customers, allowing them to select personalised offers which reward loyalty.

SOLID OPERATIONAL PERFORMANCE

In addition to the progress we made in UK Home energy supply during the year, we delivered solid operational performance across the rest of the Group.

In the customer-facing businesses, UK Business returned to profitability and delivered strong working capital inflow, with billing issues following implementation of a new billing and customer relationship management system now fully resolved. The new system has enabled us to digitise and transform the customer journey, enhancing the customer experience. The business is now focused on delivering further operational improvements and continued cash collection, developing new offers and channels to deliver growth, and supporting Distributed Energy & Power in the development of compelling customer propositions. In Ireland, we delivered customer growth, with account holdings up 4% reflecting attractive customer offers. North America Home accounts were down 7%, with the business focused on more valuable customer segments and the number of customers paying for annuity contracts was up 9%.

In the asset businesses, E&P production was down 9%, predominantly reflecting natural portfolio decline in Europe and decisions to shut-in production in Canada in response to the low commodity price environment. However, despite lower commodity prices, E&P was free cash flow positive in 2016 reflecting significant cost efficiencies and lower capital expenditure in line with the strategy. In Central Power Generation, nuclear volumes were at the highest level since we acquired our interest in the UK nuclear fleet in 2009.

In Centrica Storage, the Rough asset continued to be impacted by low seasonal gas price spreads and operating constraints following our decision in 2015 to conduct well testing and verification works. We announced in February 2017 that we expected to complete the testing programme by the end of April 2017, as previously indicated. However, we also announced that Rough will not be available for injection operations until at least the end of June 2017, as we evaluate the test results. As a result, we currently expect Centrica Storage to report an increased operating loss in 2017 compared to 2016. Returning the asset to injection operations in 2017 remains subject to the successful completion of the well testing and any further works necessary to ensure Rough can be safely returned to service.

ROBUST FINANCIAL PERFORMANCE

Reflecting our strategic progress, strong cost efficiency delivery and operational performance, adjusted operating profit increased by 4% compared to 2015, with a 9% increase in operating profit from our customer-facing businesses more than offsetting the impact of lower profit from the asset businesses. This includes the impact of a significantly improved H2 2016 result in North America as expected following the impact of significantly warmer weather in H1 2016. It also includes the benefit of a strong H2 2016 performance in Energy Marketing & Trading, reflecting the optimisation of flexible gas contracts and a strong trading performance.

Group adjusted earnings increased by 4%, with adjusted basic EPS of 16.8p down 2% reflecting the effects of the 7% equity placing in May. Adjusted operating cash flow increased by 19% to nearly £2.7bn, including the benefits of strong working capital management and one-off debt recovery in UK Business. After adjusting 2015 for the impact of commodity price movements on E&P and Nuclear and foreign exchange movements, and 2015 and 2016 for one-off working capital impacts in UK Business, underlying adjusted operating cash flow growth was 14%, in excess of the Group's target to deliver 3-5% per annum on average between 2015 and 2020. Exceptional items generated a credit of £27m, compared to charges totalling £1,846m in 2015.

Reflecting the Group's focus on cash flow and capital discipline, the Group generated adjusted net cash inflow of over £900m in 2016, before taking into account the net impact of the £700m equity placing and the acquisitions of ENER-G Cogen and Neas Energy for a combined net cash outflow of £322m. In total, net cash inflow was over £1.3bn in 2016 and net debt ended the year below £3.5bn, 27% lower than at the end of 2015 and 33% lower than at the end of 2014. The IAS19 pension deficit at the end of 2016 was £1,137m, up from £119m at the end of 2015, primarily reflecting the impact of a lower discount rate of projected future liabilities driven by the current lower interest rate environment. This higher pension deficit will result in a higher notional non-cash interest charge in 2017. Centrica retains a Baa1 rating with a stable outlook with Moody's, and a BBB+ rating with a negative outlook with S&P.

The 2016 proposed full year dividend per share is maintained at 12.0p. With continued strong cash delivery and net debt reduction, in line with our policy to deliver a progressive dividend in line with adjusted operating cash flow growth, we would currently expect to restore a progressive dividend when Group net debt is in the range £2.5bn-£3.0bn. We believe this is the appropriate level consistent with our financial framework parameters given our existing portfolio of businesses and the current environment for commodity prices, interest rates and inflation. We are targeting Group net debt in the £2.5-£3.0bn range by the end of 2017.

OUTLOOK AND 2017 TARGETS – RETURNS AND GROWTH

Centrica's focus remains on cash generation, capital discipline and reducing net debt. In 2017 the Group expects to deliver:

- Adjusted operating cash flow above £2bn.
- Group capital investment, including any small acquisitions of less than £100m each, of no more than £1bn. E&P capex expected to be around £500m.
- Incremental revenue investment of around £100m in growth areas.
- A further £250m of efficiency savings.
- A like-for-like direct headcount reduction of around 1,500.
- Net debt in the £2.5-£3.0bn range.

Centrica will be holding a Capital Markets Day on 21 June 2017 to provide more insight into the Group's Consumer and Business strategies and to showcase its capabilities and technology.

Our achievements during 2016 mean Centrica enters 2017 a stronger company, with operations in 17 countries following recent successful acquisitions, and encouraging underlying momentum. Having built base capabilities in our focus areas for growth, incremental revenue investment of around £100m is expected in these areas in 2017, including the full launch of Hive in North America and the roll-out of subscription commercial models.

Relative to 2016, there are a number of factors which will affect 2017 adjusted earnings, including the impact of the prepayment tariff cap in the UK, ongoing testing on the Rough wells and associated uncertainty with respect to our ability to offer storage products for this coming winter, higher non-cash interest charges resulting from the higher pension deficit and our choice to invest ahead of revenue growth in our growth businesses. However we have material momentum in our efficiency programme, we expect normal weather in North America, the commodity price environment is more favourable for E&P and there are a range of possible outcomes in UK energy supply.

We remain confident in our ability to deliver our target of at least 3-5% underlying adjusted operating cash flow per annum on average between 2015-20, over time underpinning a progressive dividend policy and delivering shareholder value through both returns and growth.

GROUP REVENUE

Group revenue fell 3% to £27.1bn (2015: £28.0bn). This primarily reflects the impact of lower commodity prices on tariffs in UK and North America energy supply and on achieved prices in E&P and EM&T, lower consumption due to warmer weather in North America and reduced account holdings.

OPERATING PROFIT

From 1 January 2016 new reporting segments are in place. 2015 comparatives have been restated accordingly. Within the statement, reference is made to a number of different profit measures, as shown below:

Year ended 31 December	Notes	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Statutory result £m	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Statutory result £m
Adjusted operating profit / (loss)							
Energy Supply & Services – UK & Ireland (UK&I ES&S)		**906**			891		
Energy Supply & Services – North America (NA ES&S)		**314**			323		
Connected Home (CH)		**(50)**			(49)		
Distributed Energy & Power (DE&P)		**(26)**			(32)		
Energy Marketing & Trading (EM&T)		**161**			66		
Total customer-facing businesses		**1,305**			1,199		
Exploration & Production (E&P)		**187**			95		
Central Power Generation (CPG)		**75**			128		
Centrica Storage (CSL)		**(52)**			37		
Total adjusted operating profit	5(c)	**1,515**			1,459		
Interest and taxation on joint ventures and associates	5(c)	**(48)**			(61)		
Group operating profit / (loss)	5(c)	**1,467**	**1,019**	**2,486**	1,398	(2,255)	(857)
Net finance cost	7	**(300)**	**–**	**(300)**	(279)	–	(279)
Taxation	8	**(282)**	**(242)**	**(524)**	(286)	538	252
Profit / (loss) for the year		**885**	**777**	**1,662**	833	(1,717)	(884)
Less loss attributable to non-controlling interests		**10**			30		
Adjusted earnings		**895**			863		

Total adjusted operating profit increased 4% to £1,515m. Profit from customer-facing businesses increased by 9%, with strong EM&T performance, a return to profitability in UK Business, favourable foreign exchange moves and cost efficiencies more than offsetting the impact of lower account holdings. Combined profitability from the asset businesses – E&P, CPG and CSL – was lower, with cost efficiencies only partially offsetting the impact of lower commodity prices on E&P and CPG and lower CSL profitability due to asset availability and low spreads.

GROUP FINANCE CHARGE AND TAX

Net finance costs increased to £300m (2015: £279m), predominantly reflecting a higher interest cost on bonds following the issuance of £1bn equivalent of hybrid securities in April 2015 and lower interest income following the disposal of Lincs wind farm debt in 2015.

Business performance taxation on profit was broadly flat at £282m (2015: £286m) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £298m (2015: £294m). The resultant adjusted tax rate for the Group was 25% (2015: 26%). An effective tax rate calculation is shown below:

Year ended 31 December	2016 UK £m	2016 Non-UK £m	2016 Total £m	2015 UK £m	2015 Non-UK £m	2015 Total £m
Adjusted operating profit	**932**	**583**	**1,515**	1,057	402	1,459
Share of joint ventures/associates interest	**(32)**	**-**	**(32)**	(53)	–	(53)
Net finance cost	**(235)**	**(65)**	**(300)**	(156)	(123)	(279)
Adjusted profit before taxation	**665**	**518**	**1,183**	848	279	1,127
Taxation on profit	**31**	**251**	**282**	74	212	286
Share of joint ventures'/associates' taxation	**16**	**-**	**16**	8	–	8
Adjusted tax charge	**47**	**251**	**298**	82	212	294
Adjusted effective tax rate	**7%**	**48%**	**25%**	10%	76%	26%

The low UK adjusted effective tax rate is due principally to upstream losses being taxed at a rate higher than the UK standard rate, together with the impact of a 1% reduction to that standard rate.

GROUP EARNINGS AND DIVIDEND

Profit for the year increased to £885m (2015: £833m) and after adjusting for losses attributable to non-controlling interests, adjusted earnings increased by 4% to £895m (2015: £863m). Adjusted basic EPS fell 2% to 16.8p (2015: 17.2p) reflecting a higher number of shares in issue due to the effects of the 7% equity placing in May and the scrip dividend.

The statutory profit attributable to shareholders for the period was £1,672m (2015: loss of £747m). 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 2015 is principally due to a £27m net exceptional credit (2015: charge of £1,846m) and a higher net gain from certain re-measurements of £750m (2015: £129m). The Group reported a statutory basic EPS of 31.4p (2015: loss of 14.9p).

In addition to the interim dividend of 3.6p per share, the proposed final dividend is 8.4p, giving a total full year dividend of 12.0p (2015: 12.0p).

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Net cash flow from operating activities increased to £2,396m (2015: £2,197m). Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, was up 19% to £2,686m.

Year ended 31 December	**2016**	2015
Net cash flow from operating activities	**£2,396m**	£2,197m
Add back/(deduct):		
Net margin and cash collateral inflow (i)	**(£177m)**	(£282m)
Payments relating to exceptional charges	**£273m**	£81m
Dividends received from joint ventures and associates	**£117m**	£180m
Defined benefit deficit pension payment	**£77m**	£77m
Adjusted operating cash flow	**£2,686m**	£2,253m

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

Net cash outflow from investing activities increased to £803m (2015: £611m), with the impact of lower organic capital expenditure more than offset by lower disposal proceeds, reduced dividends received from our UK nuclear associate and the acquisitions of ENER-G Cogen and Neas Energy in our growth businesses.

Net cash outflow from financing activities reduced to £546m (2015: £1,331m), reflecting the issuance of new ordinary share capital following the equity placing, lower financing interest due to hedging cash flows and lower net repayment of borrowings, partially offset by an increase in cash dividends paid.

Reflecting all of the above, the Group's net debt at the end of 2016 fell to £3,473m (2015: £4,747m), which includes cash collateral posted or received in support of wholesale energy procurement.

During the year net assets increased to £2,844m (2015: £1,342m) with the equity placing, a higher level of retained earnings and a translation gain on foreign operations more than offsetting an increased actuarial loss on the Group's defined benefit pension schemes.

The net pension liability at the end of 2016 was £1,137m (2015: £119m). The Group has now finalised its triennial review with the Pension Trustees, based on the position as at 31 March 2015, with an agreement to fund a £1,203m deficit on a Technical Provisions basis, with additional annual cash contributions of £76m per year over the next 14 years commencing in 2017. Further details can be found in note 14.

ACQUISITIONS AND DISPOSALS

In May, the Group acquired 100% of ENER-G Cogen, an established supplier and operator of combined heat and power (CHP) solutions, for cash consideration of £149m. In October, the Group acquired 100% of Neas Energy, one of Europe's leading providers of energy management and revenue optimisation services for decentralised third-party owned assets for cash consideration of £210m.

In March, the Group completed the sale of the GLID wind farm joint venture for £116m, including £22m for outstanding interest due to the Group.

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

EXCEPTIONAL ITEMS

A net exceptional pre-tax charge of £11m was recognised during the period (2015: £2,358m).

Group Financial Review continued

As a result of the implementation of a salary cap on pensionable pay for the Centrica Pension Plan final salary scheme, the Group recognised a past service credit of £78m. It also recognised a £53m net credit on onerous power procurement contracts, with a reduction in onerous provisions relating to its UK gas-fired power station tolling contract and its US wind power procurement arrangements partially offset by an additional charge following termination of the Group's Dutch gas-fired power station tolling contract. The Group recognised a £228m charge relating to restructuring associated with implementing the Group's new operating model.

The Group recognised a £73m gain on disposal of the GLID wind farm joint venture, a £50m gain on disposal of the Skene and Buckland oil and gas assets and a £22m loss on disposal of two non-core businesses, Airtron Canada and Airco Mechanical, in North America.

The Group also recognised a £135m write back on some E&P assets, reflecting increases in reserves, cost savings, revisions to decommissioning estimates and the agreed sale proceeds for its Trinidad and Tobago gas assets. A £26m write back was also recognised on the Group's Kings Lynn CCGT, primarily reflecting the 15-year capacity market contract awarded in December 2016. It also recognised a £176m impairment on its UK gas storage facility, Rough, in H1 2016 reflecting updated assumptions on asset availability in the near term and the permanent withdrawal of its 47/8A installation from service.

Taxation on these charges generated a credit of £9m (2015: £477m) and combined with a £29m credit related to a decrease in upstream UK tax rates, total net exceptional items after tax generated a credit of £27m (2015: £1,846m net exceptional charge). Further details can be found in note 6.

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 £1,030m (2015: £103m) relating to these re-measurements. 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 6 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

On 13 January 2017, Centrica announced the sale of its 50% share in the Lincs windfarm for net cash proceeds of £224m. The transaction completed on 17 February 2017.

On 16 February 2017, Centrica Storage announced that following further well tests at the Rough gas storage field, injection services cannot currently be offered for the 2017/18 storage year. Analysis of the testing programme is expected to be completed by 30 June 2017.

Further details of events after the balance sheet date are described in note 17.

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are largely unchanged from those set out in its 2015 Annual Report. However the UK referendum vote to leave the European Union has created additional uncertainty, which has already led to some volatility in markets and fluctuations in foreign exchange rates, interest rates and commodity prices, all of which may impact the Group. In addition, the result of the 2016 United States Presidential Election creates additional uncertainty regarding energy policy in North America. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4. Details on the Group's capital management processes are provided under sources of finance in note 11(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 (IFRS) 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.

UK & IRELAND

UK HOME

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.32**	1.46	(10%)
Brand NPS	**3**	(7)	10pt
Complaints (per 100,000 customers) [1]			
Energy supply	**6,491**	9,354	(31%)
Services	**1,664**	2,007	(17%)
Customer account holdings (‘000s)			
Energy supply	**14,250**	14,659	(3%)
Services [2]	**7,526**	7,745	(3%)
Total customer account holdings (‘000s)	**21,776**	22,404	(3%)
Installs and on demand jobs (‘000s)	**338**	357	(5%)
Total customer energy consumption			
Gas (mmth)	**3,549**	3,531	1%
Electricity (GWh)	**22,080**	22,642	(2%)
Energy use per residential energy customer account (kWh)	**8,764**	8,544	3%
Annualised cost per Home customer (£) [3]	**98**	99	(1%)
Adjusted operating costs as a % of gross margin	**52%**	53%	(1ppt)
Adjusted operating cash flow (£m)	**1,053**	724	45%
Adjusted operating profit (£m)	**810**	880	(8%)

UK BUSINESS

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.18**	0.21	(14%)
Brand NPS	**(16)**	(19)	3pt
Complaints (per 100,000 customers) [1]	**19,659**	25,830	(24%)
Customer account holdings (‘000s)	**717**	763	(6%)
Total customer energy consumption			
Gas (mmth)	**533**	620	(14%)
Electricity (GWh)	**12,562**	14,205	(12%)
Adjusted operating costs as a % of gross margin	**78%**	101%	(23ppt)
Adjusted operating cash flow (£m)	**418**	(132)	nm
Adjusted operating profit (£m)	**50**	(19)	nm

IRELAND

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.72**	0.66	9%
Brand NPS	**20**	(7)	27pt
Complaints (per 100,000 customers) [1]	**11**	17	(35%)
Customer account holdings (‘000s)	**692**	665	4%
Total customer energy consumption			
Gas (mmth)	**335**	294	14%
Electricity (GWh)	**3,017**	2,634	15%
Energy use per residential energy customer account (kWh)	**7,998**	7,877	2%
Annualised cost per Home customer (£) [3]	**118**	106	11%
Adjusted operating costs as a % of gross margin	**59%**	68%	(9ppt)
Adjusted operating cash flow (£m)	**84**	31	171%
Adjusted operating profit (£m)	**46**	30	53%

1. Complaints per 100,000 customers as reported to Ofgem for UK energy supply, the FCA for UK Home services and CER for Ireland. 2015 services complaints updated to reflect change in services account holdings as per footnote 2 below.
2. UK Home services customer account holdings now include Home Insurance holdings that were not previously reported. 2015 holdings have been restated accordingly.
3. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs. 2015 adjusted for 2016 FX rates.

Business Review continued

UK & IRELAND ENERGY SUPPLY & SERVICES

We made good progress in implementing our customer-facing strategy in the UK and Ireland during 2016. We have established a new customer-centric operating model as we reposition the business beyond energy supply, enabling us to broaden and deepen the relationship with the customer in their home. Our strategy recognises customers are more empowered, with increased demand for technology-enabled service and integrated devices. Against this backdrop, we are focused on improving customer satisfaction, enhancing our range of innovative products and solutions, and delivering cost efficiencies.

Our efficiency programme enables us to prioritise our resources to defend and grow our core energy and services activities and invest in new growth opportunities. During the year we restructured our UK energy and services businesses to create two new business units, UK Home and UK Business, and two operating functions, Customer Operations and Field Operations. This has enabled us to realise scale benefits from common processes and develop a segmented customer approach and targeted propositions. We have now consolidated operations into fewer sites and streamlined our sales channels and services product lines and reflecting this, direct like-for-like headcount reduced by nearly 3,000 during 2016. This resulted in redundancy costs, which contributed towards the Group's £228m exceptional restructuring costs, the majority of which were incurred in UK Home. In addition, we made changes to pension terms with our employees, with the vast majority voting to accept the proposals. These actions, combined with a focus on discretionary expenditure and a normalisation of UK Business costs, meant total like-for-like controllable costs fell by 7% compared to 2015 while our cost per UK home customer fell by 1%.

UK HOME

Against a competitive backdrop, excellent customer service is a core requisite for retaining and winning new customers. During the year we took actions to improve employee training, implemented a more customer friendly 'moving home' process and improved call scripts. This all led to lower complaints in both energy supply and services, and Brand NPS is now positive at +3, an improvement of 10 points. Engineer NPS remains high at +69.

The number of energy supply customer account holdings reduced by 409,000 or 3% in 2016 including the impact of a significant roll-off of long-term fixed price contracts in H1 2016. However, it was broadly flat in H2 2016, despite higher market churn rates, reflecting the launch of new competitively priced customer offers and British Gas having one of the lowest standard variable tariff prices in the market following a 5% reduction in our residential gas tariff in March. The number of services product holdings fell by 3% in 2016, reflecting the ongoing market trend for customers using on-demand and home emergency services, although the rate of loss was much reduced in H2 2016 with targeted offers helping improve customer retention. We have developed a technology-led on-demand proposition, Local Heroes, which leverages our engineer base as well as providing access to local tradesmen backed by a British Gas guarantee. Across both energy and services, a greater understanding of customer preferences and more sophisticated customer segmentation is enabling us to develop more targeted offers as we focus increasingly on customer value.

We continue to lead the industry in the smart meter roll-out, having installed 3.3m to date. Smart meters will bring significant benefits to customers, with an end to estimated bills and a greater ability to monitor and reduce consumption helping improve customer engagement. Utilising smart meter technology, we launched our 'FreeTime' tariff in June, offering free electricity to customers on either a Saturday or Sunday.

UK Home adjusted operating profit fell 8% to £810m. Within this, we delivered underlying growth in services, when adjusted for a £23m pension credit in 2015, and energy supply adjusted operating profit was down 11% to £553m. This reduction in energy supply profitability reflects a changing product mix and lower customer account holdings, partially offset by efficiency benefits. However, adjusted operating cash flow increased significantly due to strong working capital management.

UK BUSINESS

UK Business returned to profitability in 2016 following an adjusted operating loss in 2015, with billing issues associated with the migration of customer accounts and associated data on to a new billing and CRM system from multiple legacy systems now fully resolved. Billing accuracy and timeliness are now significantly better than under the old systems and as a result, complaints fell by around a quarter compared to 2015 and operating costs returned to pre-implementation levels. Following investigations by Ofgem into the impact the transition to the new system had on our customers, and into the roll-out of advanced meters for certain categories of business customers, we have agreed to pay £14m in total in redress distributed across affected micro-business customers, the charity Money Advice Trust, which provides a business debt line service to help customers in need, and to fund energy efficiency advice and related activities through the Carbon Trust.

Collecting customer debt arising from the billing issues was a key area of focus throughout the year, and as a result adjusted operating cash flow was £418m compared to an adjusted operating cash outflow of £132m in 2015. Customer account holdings fell by 6% in 2016, as we looked to rebuild our reputation in the UK business market and our retention activities on higher value SME customers. UK Business also continues to support the DE&P business in the development of energy insights and solutions for our customers.

IRELAND

Our Irish business, Bord Gáis Energy, delivered a strong result in 2016. Customer service levels improved with complaints down reflecting investment in customer agent training and Brand NPS increasing to +20. We also delivered 4% growth in customer accounts, which reflected our competitive pricing position resulting from a reduction in gas and electricity prices for customers in Q4 2016.

Adjusted operating profit and adjusted operating cash flow were significantly higher than in 2015, with H2 2016 profit higher than H2 2015 including a strong operational performance in energy supply and generation and trading.

Business Review continued

NORTH AMERICA

NORTH AMERICA HOME

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.43**	2.23	(36%)
Brand NPS	**32**	n/a	nm
Energy supply complaints (per 100,000 customers) [1]	**109**	206	(47%)
Customer account holdings ('000s)			
Energy supply	**2,897**	3,033	(4%)
Services	**872**	1,003	(13%)
Total customer account holdings ('000s)	**3,769**	4,036	(7%)
Installs and on demand jobs ('000s)	**605**	683	(11%)
Total customer energy consumption			
Gas (mmth)	**1,778**	1,930	(8%)
Electricity (GWh)	**16,616**	18,114	(8%)
Energy use per residential energy customer account (kWh)	**23,056**	23,800	(3%)
Annualised cost per Home customer (£) [2]	**198**	192	3%
Adjusted operating costs as a % of gross margin	**69%**	70%	(1ppt)
Adjusted operating cash flow (£m)	**146**	158	(8%)
Adjusted operating profit (£m)	**93**	77	21%

NORTH AMERICA BUSINESS

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Brand NPS	**31**	20	11pt
Complaints (per 100,000 customers) [1]	**34**	43	(21%)
Customer account holdings ('000s)	**590**	597	(1%)
Total customer energy consumption			
Gas (mmth)	**5,827**	5,802	0%
Electricity (GWh)	**90,535**	94,000	(4%)
Adjusted operating costs as a % of gross margin	**51%**	47%	4ppt
Adjusted operating cash flow (£m)	**285**	338	(16%)
Adjusted operating profit (£m)	**221**	246	(10%)

1. Complaints per 100,000 customers as reported by various regulatory bodies.
2. Annualised cost per Home customer calculates adjusted operating costs and controllable cost of goods sold as a proportion of holdings, installs and on demand jobs. 2015 adjusted for 2016 FX rates.

NORTH AMERICA ENERGY SUPPLY & SERVICES

We made good progress in implementing our North America strategy in 2016, as we look to build on our market leading consumer and business positions. As in the UK and Ireland, our focus remains on improving customer satisfaction levels, enhancing our range of innovative products and solutions and delivering cost efficiencies. Overall, North America profitability was down 3% compared to 2015 and down 17% on a local currency basis after normalising for the effects of foreign exchange movements. This reflected the impact that warm weather in H1 2016 had on consumption and in reducing spot optimisation opportunities from our natural gas pipeline and storage capacity contracts. However, H2 2016 adjusted operating profit was significantly higher than both H1 2016 and H2 2015, with the realisation of higher B2B forward net margin under contract, improved solar performance and cost efficiencies.

NORTH AMERICA HOME

Excellent customer service is a core requisite for retaining and winning new residential customers. During the year we made good progress, implementing user interface enhancements for our customer care agents, providing additional training for both customer care and sales agents and introducing new service channels including social media and online chat. This contributed to a 47% reduction in energy supply complaints while Brand NPS over the year was +32.

We remain focused on continuing to improve the sustainability of the business through offer differentiation and innovative customer propositions. This includes the bundling of products, with 21% of energy sales being bundled with one or more other products, such as a protection plan or smart thermostat. In November, we launched bundled energy and Hive connected home tariffs in Texas, the US North East and Alberta, and a full launch is planned in H1 2017.

We are also looking to expand into new geographies as opportunities open up and during the year we started providing energy in New Hampshire and Rhode Island, while we opened 78 new services franchise territories. Energy customer retention improved by 3ppt, however the total number of energy supply customer accounts fell by 136,000 in 2016, reflecting our decisions to stop door-to-door sales in Texas and wind-down our customer base in Ontario, as we focus on the higher value customer segments and regions. Services customer account holdings fell by 13%, as a number of trial offers came to an end. However increased conversion from trial to paid contracts resulted in a 9% increase in the number of more valuable paid annuity contracts.

Our efficiency programme is key to retaining a competitive position and serving our customers more effectively. The combination of our residential energy and services activities to create the North America Home business unit has led to synergies from simplification, more effective and efficient sales channel use and reductions in headcount. In addition, we simplified our services business with the divestment of two small non-core businesses, Airtron Canada and Airco Mechanical. We have also repositioned our solar business to make it more efficient, restructuring our operations, streamlining sales processes and closing a number of loss-making offices in non-core markets. Cost per Home account increased by 3% compared to 2015, primarily reflecting the lower customer account holdings.

North America Home adjusted operating profit increased 21% to £93m, or 6% on a local currency basis, reflecting improved unit margins in energy resulting from our focus on customer value and growth in our annuity business. Adjusted operating cash flow was down 8%, reflecting the impact of weather on working capital.

NORTH AMERICA BUSINESS

Customer satisfaction and retention remain a key focus in our B2B business. During the year we launched a number of new operational processes to enhance the experience for our customers, including improving the timeliness of generating a quote and engaging earlier with the customer prior to contract renewal. We also continued to invest in our systems, helping to improve efficiency and delivering efficiencies. Reflecting all this, complaints fell by 21% while Brand NPS improved from +20 in 2015 to +31 in 2016.

Total gas consumption was broadly flat and electricity consumption was down 4% compared to 2015, reflecting the warmer weather, partially offset by a slight shift in customer mix towards higher consuming customers. We continue to build on our position as the largest C&I gas supplier in the North East of the United States, as we look to increase our brand awareness and develop innovative offers. We are focused on developing a range of products targeted at different customer segments, delivering tailored offerings for larger businesses and simpler digital offers for small and medium sized customers.

Business Review continued

We will also continue working closely with our international DE&P business, with Direct Energy the key channel for the sale of Panoramic Power's wireless energy management solution to both new and existing customers. The number of licences deployed for Direct Energy customers increased threefold in 2016 in comparison to 2015, with sales to a diverse range of customers including retailers, manufacturers, cinemas and healthcare providers.

North America Business adjusted operating profit was down 10%, or 24% on a constant currency basis, and adjusted operating cash flow was down 16% compared to 2015. This predominantly reflects warmer weather in 2016, which impacted consumption and imbalance charges and limited the potential for spot optimisation profit from our natural gas pipeline and wholesale power contracts.

CONNECTED HOME

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	nm
Brand NPS	**45**	45	0pt
Cumulative hubs installed ('000s)	**527**	292	80%
New products launched	**5**	1	400%
Active subscriptions ('000s)	**34**	0	nm
Adjusted operating costs as a % of gross margin	**703%**	1,256%	(553ppt)
Gross revenue (£m)	**33**	19	74%
Adjusted operating cash flow (£m)	**(58)**	(46)	(26%)
Adjusted operating (loss) (£m)	**(50)**	(49)	(2%)

Connected Home is one of our focus areas for growth and we have brought together our existing expertise in the UK and North America to create a global business unit. Connected home products are an important source of differentiation when linked to energy and services products for residential customers, helping drive engagement and brand awareness and enabling us to broaden and deepen the customer relationship, as well as providing growth opportunities in their own right. Our connected home customer offer is being developed around three categories – peace of mind, home energy management and home automation.

We already have strong capabilities, including ownership of our proprietary connected home platform acquired through the AlertMe acquisition in 2015. We are well placed to compete in this space, with our existing customer base in the UK, Ireland and North America providing a strong initial route to market. We had installed 527,000 connected hubs cumulatively by the end of 2016, with the number of hubs installed in H2 2016 more than double the number installed in H1 2016. During the year we launched four new connected home products in the Hive range: the Active Plug; Window and Door Sensor; Motion Sensor; and Active Lights. We have also redesigned our products for non-UK markets and we are now selling Hive products in North America, with plans for a full launch, including the Hive smart thermostat, in H1 2017. In total we sold over 450,000 Hive products in 2016, more than three times the amount sold in 2015.

In H1 2016 we also launched 'Boiler IQ', our innovative connected boiler proposition and first subscription-based product, which uses sensors to remotely diagnose faults, creating a unique experience for services contract customers. We have now installed around 30,000 'Boiler IQ' devices, with very positive feedback. We also continue to integrate our Hive product range with other eco-systems and in H2 2016 we partnered with Amazon Echo, as their smart home launch partner in the UK, allowing our Hive customers to control their heating, lighting and plugged-in devices simply by speaking through the Alexa voice assistant. In addition, our energy insight products, 'My Energy' in the UK and 'Direct Your Energy' in North America, are now available to more than 3.6m customers.

In 2017, we will continue to invest in the business. We will look to expand the Hive product range, including the launch of a water leak detection product enabled by the acquisition of Flowgem in H2 2016, and drive sales of Hive products in North America. We will also look for opportunities to expand into new geographies where we don't currently serve customers and build new partnerships across further geographies and channels. In addition we will look to move towards a subscription based commercial model, and have already launched a number of trial offers in the UK.

Connected Home reported a 74% increase in gross revenue in 2016, reflecting the increase in the installation of Hive hubs and product sales. However, the business reported an adjusted operating loss and negative adjusted operating cash flow, reflecting investment in infrastructure, product development and capability to support business growth.

Business Review continued

DISTRIBUTED ENERGY & POWER

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.36**	1.33	2%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.0**	0.0	nm
NPS [2]	**n/a**	n/a	nm
Flexible distributed energy capacity under management (MW)	**543**	559	(3%)
Active customer sites	**3,924**	2,536	55%
Secured revenue (order book) (£m)	**321**	103	212%
Adjusted operating costs as a % of gross margin [3]	**369%**	nm	nm
Gross revenue (£m)	**161**	95	69%
Adjusted operating cash flow (£m)	**(15)**	(14)	(7%)
Adjusted operating (loss) (£m)	**(26)**	(32)	19%

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation segments due to shared employees across both business units.
2. NPS methodology for Distributed Energy & Power is under development.
3. 2015 adjusted operating costs as a % of gross margin not reported due to negligible gross margin resulting in a spurious calculation.

Distributed Energy & Power (DE&P) is one of our focus areas for growth. Reflecting this, we have established a new international business unit, bringing together expertise from our UK business services and power generation activities and our North America business division. Our existing capabilities, combined with the CHP capabilities obtained through the £149m acquisition of ENER-G Cogen in May 2016, provide us with the base to capitalise on the global trend towards distributed energy. Our distributed energy offer is being developed around three categories – energy insights, energy optimisation, and energy solutions.

The ENER-G Cogen integration has been proceeding to plan and we are now able to offer both off-the-shelf and bespoke end-to-end CHP solutions for B2B customers, from initial design through to installation, operation and maintenance, complementing Centrica's existing capability in installing and managing distributed systems. The business operates primarily in the UK, but also has operations in North America, Hungary, Italy and the Netherlands. The acquisition added capacity under contract of over 500MW across 1,400 CHP units.

The acquisition of ENER-G Cogen fits alongside the 2015 acquisition of Panoramic Power, and with the Energy Marketing & Trading acquisition of Neas Energy adding enhanced energy optimisation capability, we have a good core of experience and expertise, and the range of products to create a compelling customer offer. During 2016 we saw further growth in sales of our energy insights product, developed by Panoramic Power, and have now deployed nearly 40,000 sensors in total with H2 2016 sales up 65% compared to H1 2016.

The DE&P segment also includes our smaller operating gas-fired peaking plants at Barry, Brigg and Peterborough. Peterborough and Barry have Short Term Operating Reserve (STOR) contracts until March 2018, while the 99MW Brigg plant continues to operate as a distributed generation asset. All three plants were awarded one year capacity contracts starting in October 2017 in the Early Capacity Auction. Brigg capacity is included within our total flexible distributed energy capacity under management, which has fallen by 3% over the past 12 months reflecting market changes in H1 2016 that limited the eligibility of some diesel generation in the North American market, however it increased by 5% in H2 2016. In March we closed the Killingholme gas-fired power station following completion of its winter 2015/16 SBR contract, with the asset having become uneconomic due to its age and prevailing market conditions. The Killingholme site was sold in December 2016.

We also announced plans to build new distributed power assets, having been awarded 15-year contracts in the 2020/21 capacity market auction for two new fast-response 50MW distributed gas-fired assets at Brigg and Peterborough and a 49MW battery storage project at Roosecote. We will run these plants alongside customer-owned assets to optimise them as part of a wider portfolio. In December we announced a pioneering trial to develop a local energy market in Cornwall, which will see the development of a virtual marketplace and the installation of new technology in over 150 homes and businesses. The programme will test the use of flexible demand, generation and storage, allowing participants to sell flexible energy capacity to both the grid and the wholesale energy market, rewarding local people and businesses for being more flexible.

Total gross revenue increased by 69% to £161m and secured revenue increased to £321m, predominantly reflecting the ENER-G Cogen acquisition. DE&P reported an adjusted operating loss of £26m and negative adjusted operating cash flow of £15m in 2016, with continued low returns from the peaking plants and a focus on investments to build its distributed energy capability. However the loss was lower than in 2015, primarily reflecting the closure of the Killingholme plant and additional STOR and SBR revenue across our other peaking plants, as well as an initial contribution from ENER-G Cogen.

ENERGY MARKETING & TRADING

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.00**	0.00	0%
Adjusted operating cash flow (£m)	**198**	248	(20%)
Adjusted operating profit (£m)	**161**	66	144%

Energy Marketing & Trading (EM&T) provides risk management and wholesale market access for the Group. During the year we continued to build on our strong cross-commodity trading capabilities, made good progress in expanding our route to market offer for customers and strengthened our global presence in LNG.

In October, we completed the £210m acquisition of Denmark-based Neas Energy, one of Europe's leading providers of risk management and revenue optimisation services for decentralised third party owned assets. Neas Energy serves customers who own 2,500 individual decentralised assets, including windfarms, solar plants and CHP plants with a combined installed capacity of approximately 8,600MW. In addition, the transaction brings an enhanced technology platform and strengths in energy analytics.

Neas Energy operates predominantly in Denmark, the UK, Germany and Sweden, and the business model is complementary to Centrica's existing UK-based EM&T activities. The acquisition enables Centrica to materially accelerate its route to market strategy across Europe, while also strengthening the optimisation activity offering for DE&P customers. The business has performed well since acquisition, making a strong initial contribution to adjusted operating profit and cash flow.

EM&T continues to enhance its global presence in LNG. During 2016 we signed a Memorandum of Understanding with Tokyo Gas Co Ltd, Japan's largest natural gas utility, to optimise contracted volumes from both Atlantic and Asia-Pacific markets through location swaps. We announced a five year Sales and Purchase Agreement with Japanese utility JERA, the world's largest buyer of LNG, under which we will purchase up to six cargoes per annum at the Isle of Grain Terminal in the UK from April 2019. We also entered into a new five year supply agreement with Qatargas for the purchase of up to two million tonnes per annum of LNG, which will start in January 2019 following the expiry of our existing contract with Qatargas. In October, we signed a seven-year agreement with GasLog Ltd to charter a new-build LNG carrier, starting in 2019. The agreement is expected to coincide with first commercial delivery of our US export supply contract with Cheniere.

EM&T continues to have a number of flexible gas contracts, the profit and cash flow from which will vary between periods based on the commodity price environment and decisions we take to optimise these contracts to maximise value. Some of these contracts are 'take or pay', where the payments are made for gas even if delivery is deferred to future periods. The commodity price environment provided opportunities for us to optimise these contracts and associated hedges during H2 2016 and the contracts overall were profitable for the full year, having been loss-making in H1 2016. This optimisation strategy was value-accretive in total, improving the 2016 result, while reducing our 2017 expectation from these contracts.

Overall, EM&T adjusted operating profit more than doubled to £161m, reflecting strong trading performance, the optimisation of flexible gas contracts between 2015 and 2016, and 2016 and 2017, and the strong initial contribution from the Neas Energy acquisition. Adjusted operating cash flow fell 20% reflecting the timing of internal tax payments and movements in working capital.

Business Review continued

EXPLORATION & PRODUCTION

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**0.55**	0.60	(8%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.30**	0.22	36%
Gas production volumes (mmth)			
Europe	**1,929**	2,137	(10%)
Americas [1]	**1,358**	1,527	(11%)
Total gas production volumes (mmth) [1]	**3,287**	3,664	(10%)
Liquids production volumes (mmboe)			
Europe	**15.4**	15.8	(3%)
Americas [1]	**2.1**	2.7	(22%)
Total liquids production volumes (mmboe) [1]	**17.5**	18.5	(5%)
Total production volumes (mmboe)	**71.2**	78.6	(9%)
Average achieved gas sales prices (p/therm)			
Europe	**35.5**	45.7	(22%)
Americas	**12.1**	14.2	(15%)
Average achieved liquid sales prices (£/boe)			
Europe	**32.0**	36.2	(12%)
Americas	**23.0**	27.8	(17%)
Lifting and other cash production costs (£/boe) [2]			
Europe	**12.9**	15.2	(15%)
Americas	**4.7**	7.7	(39%)
Adjusted operating cash flow (£m)	**655**	787	(17%)
Free cash flow (£m) [3]	**166**	86	93%
Adjusted operating profit (£m)	**187**	95	97%
Adjusted operating profit after tax (£m)	**50**	(2)	nm
Net investment (£m) [3]			
Capital expenditure (including small acquisitions)	**518**	715	(28%)
Net disposals	**(29)**	(14)	107%
Net investment (£m)	**489**	701	(30%)

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.
2. Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profit on disposal.
3. See pages 71 to 72 for an explanation of the use of adjusted performance measures.

EXPLORATION & PRODUCTION

We made good progress in 2016 in transitioning to a sustainable Exploration & Production (E&P) business producing between 40-50mmboe per annum and focused on the UK, Netherlands and Norway. Capital expenditure reduced to within our targeted £400m-£600m range, we announced the sale of our portfolio of assets in Trinidad and Tobago and we continue to work on the divestment of our Canadian E&P assets.

Total gas and liquids production of 71.2mmboe was down 9% compared to 2015. Production in Europe was down 8%, with the positive impact of consistent performance in Norway and the completion of a number of infill drilling projects at the Kvitebjørn and Statfjord fields more than offset by natural portfolio decline and a longer than expected maintenance outage at the Morecambe asset. Production in the Americas was down 12% reflecting significantly reduced drilling activity and some shut-ins of producing fields for economic reasons in the low gas price environment.

Capital expenditure was down 28% to £518m. This included spend on the Cygnus project, which delivered first commercial gas in December 2016, and production from the asset is expected to ramp up towards peak production during 2017. It also included spend on a fourth production well at the York field, which failed to deliver commercial volumes owing to reservoir quality issues. The well was shut-in, resulting in a pre-tax impairment of £63m being reported in adjusted operating profit. There was limited exploration drilling activity in Europe in 2016.

We continue to focus our investment on the most attractive development options in our portfolio. The Maria project remains on track to produce first oil in 2018, with drilling operations scheduled to begin in 2017. We also made a positive final investment decision on the Centrica-operated Oda field in the Norwegian North Sea. Centrica has a 40% interest in the field and its share of capital expenditure is expected to be around £200m, with estimated development costs having reduced by more than 40% over the past two years. Production is scheduled to start in 2019. Further infill wells are planned for Statfjord and Kvitebjørn in 2017. In early 2017 a gas discovery was announced at Valemon West, in which Centrica owns a 13% interest. Centrica's share of reserves is estimated at 2.4-6.3mmboe and production is expected to start later in Q1 2017.

In November, we announced the disposal of our remaining portfolio of gas assets in Trinidad and Tobago for $30m (£24m). The assets consist of 17.3% interest in the producing NCMA-1 block and 80% and 90% operated interests respectively in the undeveloped blocks NCMA-4 and Block 22. Centrica will receive further payments subject to Block 22 and NCMA-4 reaching agreed project milestones. The transaction is expected to close in H1 2017 and an exceptional pre-tax write back of £56m has been recognised in the 2016 financial results. We sold our other assets in the region, Blocks 1a and 1b, in April. We also disposed of our interests in the Skene and Buckland oil and gas assets in the UK North Sea for £10m in H1 2016, which resulted in a £50m exceptional gain on disposal. Reflecting these disposals, production during the year and positive revisions in Norway, E&P proven and probable (2P) reserves were 474mmboe at the end of 2016.

The business delivered very strong cost reduction performance during 2016. Unit lifting and other cash production costs were 15% lower in Europe and 39% lower in the Americas, despite reduced production, and total lifting and other cash production costs were £352m or 33% lower when compared to a 2014 baseline. This includes the absorption of incremental costs from new projects such as Valemon. We have delivered initiatives across all our assets to make these savings, including supply chain improvements and collaboration with other operators to drive efficiency. In 2016 we also moved the organisation from a regional to an asset-based structure, reducing duplication and enabling reductions in headcount across all levels.

Adjusted operating cash flow fell 17% compared to 2015, to £655m, with materially lower cash production costs, working capital management and benefits from the phasing of tax payments only partially offsetting the impact of lower commodity prices, reduced benefits from historic hedges and lower production. However including the impact of reduced capital expenditure and some small disposals the business generated £166m of free cash flow in 2016, higher than in 2015 despite the lower commodity price environment. Adjusted operating profit increased by 97% to £187m, which reflects lower costs and reduced depreciation resulting from the impairment of assets at the end of 2015.

Business Review continued

CENTRAL POWER GENERATION

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked) [1]	**1.36**	1.33	2%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) [1]	**0.00**	0.00	nm
CCGT reliability	**89%**	85%	4ppt
Power generated (GWh)			
Gas-fired	**10,092**	6,109	65%
Renewables	**539**	878	(39%)
Nuclear	**13,030**	12,126	7%
Total power generated (GWh)	**23,661**	19,113	24%
Achieved clean spark spread (£/MWh)	**9.2**	10.3	(11%)
Achieved power price – renewables (including ROCs) (£/MWh)	**116.1**	114.7	1%
Achieved power price – nuclear (£/MWh)	**44.2**	49.2	(10%)
Adjusted operating cash flow (£m)	**(1)**	130	nm
Adjusted operating profit (£m)	**75**	128	(41%)

1. Total recordable injury frequency rate and process safety incident rate relate to both the Distributed Energy & Power and Central Power Generation (CPG) segments due to shared employees across both business units.

In 2016 we made significant progress in improving operational efficiency and reshaping our centralised power portfolio, in line with our strategy to focus on growth in distributed generation.

Gas-fired generation volumes were 65% higher in 2016 than in 2015, with improved plant reliability and power market tightness in H2 2016 resulting in higher load factors from our Langage and South Humber Bank power stations and higher volumes from the Spalding tolling arrangement. The three plants were awarded one-year agreements in the 2020/21 capacity market auction held in December 2016, and in the 2017/18 Early Capacity Auction held in January 2017, and all now have contracts for four years starting in October 2017. We were also awarded a 15-year contract starting in October 2020 at the 370MW CCGT at King's Lynn, which had previously been mothballed.

Our share of nuclear generation volumes was up 7% to 13.0TWh, the highest output since we purchased our interest in the fleet in 2009. This reflected excellent operational performance, with limited unplanned outages, and the impact of a return to full service of three of the four reactors that had been operating at reduced temperatures following the identification of an issue on one boiler spine at Heysham 1 in 2014. Following the completion of further work at Heysham 1, Reactor 1, load has now been raised and the unit is now able to operate at up to 87.5%, compared to up to 75% previously. All of the nuclear reactors in which we own an interest were awarded one-year capacity agreements starting in October 2020 and were also successful in the Early Capacity Auction, meaning all now have contracts for four years in total starting in October 2017.

We have now completed our exit from wind power generation, in line with the strategy set out in July 2015. In H1 2016 we disposed of a 50% share in the 220MW GLID joint venture, resulting in cash proceeds to Centrica of £116m and an exceptional gain on disposal of £73m. In February 2017 we disposed of our remaining offshore wind farm, Lincs, resulting in cash proceeds to Centrica of £224m. Generation from our share of wind assets was 39% lower than 2015, reflecting the GLID disposal and lower wind speeds affecting Lincs.

Central Power Generation adjusted operating profit reduced by 41% compared to 2015, while adjusted operating cash flow was marginally negative, reflecting a lower power price environment for much of the year and reduced benefit from historic hedging, and £51m repayments in 2016 of amounts owed by the Group to the GLID and Lincs joint ventures.

CENTRICA STORAGE

Year ended 31 December	2016	2015	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.72**	1.30	32%
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	**0.68**	0.37	84%
Reservoir capacity (bcf) [1]	**nm**	110	nm
Average SBU price (in period) (pence)	**18.9**	20.7	(9%)
Gross revenue (£m)			
Standard SBUs	**43**	94	(54%)
Additional space / cushion gas / other	**50**	62	(19%)
Total gross revenue (£m)	**93**	156	(40%)
Adjusted operating cash flow (£m)	**(49)**	112	nm
Adjusted operating profit (£m)	**(52)**	37	nm

1. 2016 reservoir capacity not reported due to the ongoing testing and verification works

Seasonal gas price spreads remained at historic low levels through much of 2016, with a continued abundance of flexible supply across Europe. Reflecting this, it was announced in April that all SBUs for the 2016/17 storage year had been sold at 15.4p, significantly lower than the 21.1p achieved in 2015/16 and the lowest price since Centrica acquired the asset in 2002.

Following the identification of a potential technical issue in March 2015, the maximum operating pressure of the Rough wells remained limited to 3,000 psi during H1 2016, which limited the stock in Rough to 33-36TWh. The highest level reached in 2014 was 41.1TWh. As a responsible operator, and given the age of the field and installation, Centrica Storage decided to take the prudent step to test and verify the operating parameters of the Rough wells. Following a change to the Rough Undertakings, Centrica Storage was able to reduce the number of SBUs it sold for the 2016/17 storage year to 340m, from 455m in 2015/16, to reflect the impact of the reduced maximum operating pressure.

In June, Centrica Storage identified an additional issue on one of the Rough wells and as a consequence ceased all injection and withdrawal operations pending further testing in relation to the issue. In July, it was announced that tests on the affected well had identified further uncertainties in the remaining untested wells and as a result, Centrica Storage would continue with an enhanced testing programme, with completion expected in March to April 2017. As a prudent and safe operator Centrica Storage extended the cessation of injection and withdrawal operations, although was able to return 20 wells to service for withdrawal operations in December, in time for the majority of the Winter 2016/17 withdrawal season.

In February 2017, Centrica Storage announced that although it expected to complete the testing programme on all 24 wells at Rough by the end of April, Rough will not be available for injection operations until at least the end of June 2017, as test results are evaluated. Returning the asset to injection operations in 2017 remains subject to the successful completion of the well testing and any further works necessary to ensure Rough can be safely returned to service.

During 2016, the issues with the Rough storage asset resulted in customers being unable to use the SBU capacity they had previously purchased. Reflecting this, Centrica Storage agreed with its customers to buy back unusable capacity during H2 2016. In December, Centrica Storage launched a consultation regarding an application to Ofgem to reduce the minimum Rough capacity for the 2017/18 storage year, to avoid being required to sell more capacity than Rough can physically deliver.

Gross revenue fell to £93m, down 40% compared to 2015, reflecting the reduced capacity at Rough during H1 2016, the cessation of injection and withdrawal operations during H2 2016 and low seasonal gas price spreads. This includes slightly higher revenue from the sale of cushion gas, following consent from the Oil and Gas Authority to increase the reservoir size of Rough by approximately 4.5TWh in July 2015. Total costs increased by 22% largely due to increased maintenance expenditure, as well as costs relating to lower asset availability and managing the reservoir at lower pressure. Reflecting this, Centrica Storage reported an adjusted operating loss of £52m compared to a profit of £37m in 2015. Adjusted operating cash flow was an outflow of £49m compared to an inflow of £112m in 2015, which includes the impact of a higher volume of Centrica Storage operational gas in the reservoir at the end of 2016.

A pre-tax exceptional charge of £176m (post-tax £144m) was recorded in 2016, resulting from updated assumptions on asset availability in the near term, future expenditure on asset integrity and the impact from the permanent withdrawal of the 47/8A installation from service, which was announced in September.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group Financial Statements; and
- prepare the Group Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

By order of the Board

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Income Statement

Year ended 31 December	Notes	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Results for the year £m	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the year £m
Group revenue	5(b)	**27,102**	**–**	**27,102**	27,971	–	27,971
Cost of sales before exceptional items and certain re-measurements		**(22,711)**	**–**	**(22,711)**	(23,734)	–	(23,734)
Re-measurement of energy contracts	6	**–**	**1,058**	**1,058**	–	116	116
Cost of sales		**(22,711)**	**1,058**	**(21,653)**	(23,734)	116	(23,618)
Gross profit		**4,391**	**1,058**	**5,449**	4,237	116	4,353
Operating costs before exceptional items		**(3,054)**	**–**	**(3,054)**	(3,039)	–	(3,039)
Exceptional items – restructuring costs	6	**–**	**(228)**	**(228)**	–	–	–
Exceptional items – impairments	6	**–**	**(176)**	**(176)**	–	(2,284)	(2,284)
Exceptional items – impairment write-backs	6	**–**	**161**	**161**	–	16	16
Exceptional items – net gain on disposal	6	**–**	**101**	**101**	–	–	–
Exceptional items – other	6	**–**	**131**	**131**	–	(90)	(90)
Operating costs		**(3,054)**	**(11)**	**(3,065)**	(3,039)	(2,358)	(5,397)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	12(a)	**130**	**(28)**	**102**	200	(13)	187
Group operating profit/(loss)	5(c)	**1,467**	**1,019**	**2,486**	1,398	(2,255)	(857)
Financing costs	7	**(337)**	**–**	**(337)**	(334)	–	(334)
Investment income	7	**37**	**–**	**37**	55	–	55
Net finance cost		**(300)**	**–**	**(300)**	(279)	–	(279)
Profit/(loss) before taxation		**1,167**	**1,019**	**2,186**	1,119	(2,255)	(1,136)
Taxation on profit/(loss)	6, 8	**(282)**	**(242)**	**(524)**	(286)	538	252
Profit/(loss) for the year		**885**	**777**	**1,662**	833	(1,717)	(884)
Attributable to:							
Owners of the parent		**895**	**777**	**1,672**	863	(1,610)	(747)
Non-controlling interests		**(10)**	**–**	**(10)**	(30)	(107)	(137)

Earnings per ordinary share		2016 Pence	2015 Pence
Basic	10	**31.4**	(14.9)
Diluted	10	**31.2**	(14.9)
Interim dividend paid per ordinary share	9	**3.60**	3.57
Final dividend proposed per ordinary share	9	**8.40**	8.43

The notes on pages 29 to 68 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	2016 £m	2015 £m
Profit/(loss) for the year	**1,662**	(884)
Other comprehensive income/(loss):		
Items that will be or have been recycled to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	**8**	5
Transfer of available-for-sale reserve gains to Income Statement	**(5)**	–
Net gains on cash flow hedges	**161**	20
Transferred to income and expense on cash flow hedges	**(129)**	(12)
Transferred to assets and liabilities on cash flow hedges	**(4)**	7
Taxation on cash flow hedges	**(3)**	(6)
	25	9
Exchange differences on translation of foreign operations	**549**	(256)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(4)**	3
	573	(239)
Items that will not be recycled to the Group Income Statement:		
Net actuarial losses on defined benefit pension schemes	**(1,174)**	(321)
Exchange (loss)/gain on translation of actuarial reserve	**(7)**	3
Taxation on net actuarial losses on defined benefit pension schemes	**194**	50
	(987)	(268)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**65**	(8)
Other comprehensive loss net of taxation	**(349)**	(515)
Total comprehensive income/(loss) for the year	**1,313**	(1,399)
Attributable to:		
Owners of the parent	**1,287**	(1,227)
Non-controlling interests	**26**	(172)

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2015	311	931	1,825	(332)	2,735	336	3,071
Total comprehensive loss	–	–	(747)	(480)	(1,227)	(172)	(1,399)
Employee share schemes	–	–	2	58	60	–	60
Scrip dividend	6	204	–	–	210	–	210
Dividends paid to equity holders (note 9)	–	–	(598)	–	(598)	–	(598)
Taxation on share-based payments	–	–	–	(2)	(2)	–	(2)
31 December 2015	317	1,135	482	(756)	1,178	164	1,342
Total comprehensive income	–	–	1,672	(385)	**1,287**	26	**1,313**
Employee share schemes	–	–	1	32	**33**	–	**33**
Scrip dividend	4	121	–	–	**125**	–	**125**
Dividends paid to equity holders (note 9)	–	–	(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**

The notes on pages 29 to 68 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2016 £m	31 December 2015 (restated) (i) £m	1 January 2015 (restated) (i) £m
Non-current assets				
Property, plant and equipment		**5,298**	4,629	6,377
Interests in joint ventures and associates	12(d)	**1,697**	1,839	2,395
Other intangible assets		**1,769**	1,775	1,991
Goodwill		**2,614**	2,049	2,609
Deferred tax assets		**356**	497	354
Trade and other receivables		**66**	61	87
Derivative financial instruments	13	**582**	440	313
Retirement benefit assets	14(d)	**–**	91	185
Securities	11(b)	**219**	233	263
		12,601	11,614	14,574
Current assets				
Trade and other receivables		**5,102**	4,905	6,226
Inventories		**372**	395	555
Derivative financial instruments	13	**1,291**	936	617
Current tax assets		**241**	126	88
Securities	11(b)	**13**	11	11
Cash and cash equivalents (i)	11(b)	**2,036**	1,158	775
		9,055	7,531	8,272
Assets of disposal groups classified as held for sale	15(c)	**238**	13	–
		9,293	7,544	8,272
Total assets		**21,894**	19,158	22,846
Current liabilities				
Derivative financial instruments	13	**(1,100)**	(1,460)	(1,565)
Trade and other payables		**(5,525)**	(5,034)	(5,667)
Current tax liabilities		**(355)**	(389)	(348)
Provisions for other liabilities and charges		**(457)**	(396)	(395)
Bank overdrafts, loans and other borrowings (i)	11(c)	**(398)**	(773)	(1,789)
		(7,835)	(8,052)	(9,764)
Liabilities of disposal groups classified as held for sale	15(c)	**(42)**	(46)	–
		(7,877)	(8,098)	(9,764)
Non-current liabilities				
Deferred tax liabilities		**(245)**	(98)	(663)
Derivative financial instruments	13	**(493)**	(508)	(588)
Trade and other payables		**(69)**	(70)	(83)
Provisions for other liabilities and charges		**(3,099)**	(2,839)	(3,203)
Retirement benefit obligations	14(d)	**(1,137)**	(210)	(123)
Bank overdrafts, loans and other borrowings	11(c)	**(6,130)**	(5,993)	(5,351)
		(11,173)	(9,718)	(10,011)
Total liabilities		**(19,050)**	(17,816)	(19,775)
Net assets		**2,844**	1,342	3,071
Share capital		**342**	317	311
Share premium		**1,929**	1,135	931
Retained earnings		**1,504**	482	1,825
Other equity		**(1,109)**	(756)	(332)
Total shareholders' equity		**2,666**	1,178	2,735
Non-controlling interests		**178**	164	336
Total shareholders' equity and non-controlling interests		**2,844**	1,342	3,071

(i) Cash and cash equivalents and current bank overdrafts, loans and other borrowings have been restated for 2015. An opening balance sheet for 2015 has been presented in accordance with the requirements of IAS 1: 'Presentation of financial statements'. See note 1 for further information.

The Financial Statements on pages 25 to 68, of which the notes on pages 29 to 68 form part, were approved and authorised for issue by the Board of Directors on 23 February 2017 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	2016 £m	2015 £m
Group operating profit/(loss) including share of results of joint ventures and associates		**2,486**	(857)
Less share of profit of joint ventures and associates, net of interest and taxation	12(a)	**(102)**	(187)
Group operating profit/(loss) before share of results of joint ventures and associates		**2,384**	(1,044)
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**1,068**	3,482
Profit on disposals		**(126)**	(14)
Decrease in provisions		**(32)**	(2)
Defined benefit pension service cost and contributions		**(179)**	(131)
Employee share scheme costs		**46**	45
Unrealised gains arising from re-measurement of energy contracts		**(737)**	(12)
Operating cash flows before movements in working capital		**2,424**	2,324
Decrease in inventories		**90**	138
Decrease in trade and other receivables		**221**	769
Increase/(decrease) in trade and other payables		**140**	(604)
Operating cash flows before payments relating to taxes, interest and exceptional charges		**2,875**	2,627
Taxes paid		**(206)**	(349)
Payments relating to exceptional charges		**(273)**	(81)
Net cash flow from operating activities		**2,396**	2,197
Purchase of businesses, net of cash acquired		**(335)**	(79)
Sale of businesses		**35**	8
Purchase of property, plant and equipment and intangible assets	5(e)	**(829)**	(970)
Sale of property, plant and equipment and intangible assets		**13**	9
Investments in joint ventures and associates		**(17)**	(13)
Dividends received from joint ventures and associates	12(c)	**117**	180
Repayments of loans to, and disposal of investments in, joint ventures and associates		**94**	190
Interest received		**91**	38
Sale of securities	11(b)	**28**	26
Net cash flow from investing activities		**(803)**	(611)
Issue and surrender of ordinary share capital, including issue for share awards		**694**	28
Payments for own shares		**(17)**	(11)
Distribution to non-controlling interests		**(10)**	–
Financing interest paid		**(204)**	(311)
Repayment of borrowings and finance leases	11(b)	**(477)**	(1,650)
Cash received from borrowings, net of linked deposit	11(b)	**–**	1,000
Equity dividends paid		**(532)**	(387)
Net cash flow from financing activities		**(546)**	(1,331)
Net increase in cash and cash equivalents		**1,047**	255
Cash and cash equivalents including overdrafts at 1 January		**860**	621
Effect of foreign exchange rate changes		**53**	(16)
Cash and cash equivalents including overdrafts at 31 December		**1,960**	860
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	11(b)	**2,036**	1,158
Overdrafts included within current bank overdrafts, loans and other borrowings	11(b)	**(76)**	(298)

The notes on pages 29 to 68 form part of these Financial Statements.

Notes to the Financial Statements

1. GENERAL INFORMATION, BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2016 or later years, and if and how these are expected to impact the financial position and performance of the Group.

(a) General information

Centrica plc is a company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. The Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2016 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 23 February 2017.

The preliminary results for the year ended 31 December 2016 have been extracted from audited accounts (with the exception of notes 19 to 23 which have not been audited) which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2016 or 31 December 2015. The financial information for the year ended 31 December 2015 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2016 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

(b) Basis of preparation

The accounting policies applied in these condensed Financial Statements for the year ended 31 December 2016 are consistent with those of the annual Financial Statements for the year ended 31 December 2015, as described in those Financial Statements, with the exception of standards, amendments and interpretations effective in 2016 and other presentational changes.

(c) Standards, amendments and interpretations effective or adopted in 2016

From 1 January 2016, the following standards and amendments are effective in the consolidated Group Financial Statements. Their first time adoption does not have a material impact on the consolidated Group Financial Statements:

- Amendment to IAS 1: 'Presentation of financial statements' related to the disclosure initiative;
- Amendment to IAS 16: 'Property, plant and equipment' and IAS 38: 'Intangible assets' related to the clarification of acceptable methods of depreciation and amortisation;
- Amendment to IAS 19: 'Employee benefits' related to employee contributions to defined benefit plans;
- 'Annual Improvement Project 2010-2012'; and
- 'Annual Improvement Project 2012-2014'.

From 1 January 2016, an amendment to IFRS 11: 'Joint arrangements' on the acquisitions of interests in joint operations is effective. This amendment clarifies that an acquisition of a joint operation that meets the definition of a business is accounted for in accordance with IFRS 3: 'Business combinations'. This will lead to a change to the Group's current accounting policy for this type of acquisition. However, the amendment is only applicable prospectively for acquisitions on or after 1 January 2016 and therefore the accounting for acquisitions prior to this date has not been restated. As these accounting requirements apply to non-recurring transactions whose size may vary, the Group cannot quantify the impact that the amendment to this standard will have in the future.

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

The Group has not yet applied the following standards and amendments as these are not yet effective in the consolidated Group Financial Statements, although they have been endorsed by the EU and will be effective from 1 January 2018:

- IFRS 9: 'Financial instruments'; and
- IFRS 15: 'Revenue from contracts with customers'.

Management has established and progressed separate projects to oversee the implementation of both standards but a detailed and complete quantitative assessment of the impact upon transition has not been finalised yet.

Management's preliminary assessment of the impact of IFRS 9 was that it would not have a material impact on the Group's consolidated Financial Statements. The more detailed reviews performed by the business in 2016 have continued to corroborate this initial assessment. To date, given the nature of the Group's financial instruments held and/or issued, limited changes to the classification and measurement of financial instruments have been identified. Initial reviews have been performed across the business to determine the impact of the change from the incurred credit loss model to the expected credit loss model for impairment. Further work is required in selected areas but to date, no significant changes have been identified. The impact of the hedge accounting requirements of the standard, with certain exceptions, will be applied prospectively from 1 January 2018. Whilst the requirements for hedge accounting are simplified in IFRS 9, the Group does not expect to hedge account significantly more items because hedging strategies for the Group's commodity exposure are portfolio based and dynamic in nature. Therefore, they may still not be eligible for hedge accounting and even if they were, this would still require an excessive administrative burden. Hence, with some limited exceptions, the majority of the Group's derivative financial instrument fair value movements are expected to remain classified as certain re-measurements in the Group Income Statement and separately reported, as detailed in note 2. Further work will be conducted in 2017 to complete the outstanding reviews and update the assessment for new financial instruments entered into by the Group in 2017.

In relation to IFRS 15, management has made significant progress in the assessment of the impact of the new standard on the Group. During 2016, the Group's business units have continued to review the contractual arrangements that comprise their current revenue

Notes to the Financial Statements

1. GENERAL INFORMATION, BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

streams to determine how IFRS 15 will impact the recognition and disclosure of revenues from these arrangements. The work performed to date has identified that, for the majority of the Group's revenue, the application of IFRS 15 will have no impact on the current revenue recognition under IAS 18: 'Revenue'.

The principal reasons for this are:

- the majority of Energy Supply revenue relates to open-ended customer contracts with no minimum quantities whereby the Energy Supply business delivers the amount of energy required by customers on demand. Under IFRS 15, it has been concluded that the Supply business only has an enforceable right to bill for consumption once the customer begins to consume energy;
- a portion of our Energy Services revenue is from fixed-fee service contracts, which are within the scope of IFRS 4: 'Insurance contracts' and consequently not in the scope of IFRS 15. Revenue from these contracts will be separately identified from revenue in the scope of IFRS 15; and
- the majority of the production from our upstream assets (for example Exploration & Production gas producing fields, Central Power Generation gas fired power stations and sales of power from the Group's associate investment in Nuclear) is transferred to the Group's Energy Marketing & Trading segment and is sold in the market using trades in the scope of IAS 39: 'Financial instruments: recognition and measurement'. These transactions are therefore outside the scope of IFRS 15. Revenue from these contracts will also be separately identified from revenue in the scope of IFRS 15.

The revenue streams where differences have been identified to date are not significant. Further work is still required in 2017 to complete the reviews of certain revenue streams, for example for the recently acquired Neas Energy business and a number of less material revenue streams. Additionally, as the business develops new product offerings, the IFRS 15 implications of these will also need to be reviewed.

Separately, there will be changes to the amounts deferred on the balance sheet related to costs to obtain contracts under IFRS 15 when compared to the current treatment. The exact change in the amount deferred has yet to be formally quantified but is in the process of being assessed.

The necessary processes to capture all of the adjustments and additional disclosures required under IFRS 15 will be put into place during 2017.

The following standards and amendments are not yet effective in the consolidated Group Financial Statements and have not yet been endorsed by the EU:

- Amendment to IAS 7: 'Statement of cash flows' related to the disclosure initiative. Effective from 1 January 2017;
- Amendment to IAS 12: 'Income taxes'. Effective from 1 January 2017;
- Amendment to IFRS 2: 'Classification and measurement of share-based payment transactions'. Effective from 1 January 2018;
- Amendment to IFRS 15: 'Revenue from contracts with customers' clarifications. Effective from 1 January 2018;
- IFRS 16: 'Leases'. Effective from 1 January 2019;
- 'Annual Improvement Project 2014-2016'. Effective from 1 January 2017 and 1 January 2018 depending on amendments to different standards; and
- IFRIC Interpretation 22: 'Foreign currency transactions and advance consideration'. Effective from 1 January 2018.

Management does not anticipate that the application of the amendments to IAS 7, IAS 12, IFRS 2, IFRIC 22 and the 'Annual Improvement Project 2014-2016' will have a material impact on the amounts reported and disclosed. The clarification of IFRS 15 has been considered as part of the wider IFRS 15 project.

The implementation of IFRS 16, which was issued in January 2016, is likely to have a significant impact on the Group's future consolidated Financial Statements as all leases will be recognised on the balance sheet (with the exception of short-term and immaterial leases). A project has been established to oversee the implementation of this standard. Initial assessments of the impact of the standard are ongoing. The majority of the implementation work will take place in 2017 and therefore it has not been practicable at this stage to quantify the full effect it will have on the Group's consolidated Financial Statements upon transition.

(e) Restatements

In March 2016, the IFRS Interpretations Committee issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirement for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts on the Group Balance Sheet and now shows £76 million of bank overdrafts within current bank overdrafts, bank loans and other borrowings. Comparatives at 31 December 2015 have been restated by £298 million. The impact on the 2015 opening balance sheet was £154 million, and a third balance sheet has been presented on the Group Balance Sheet in accordance with IAS 1.

Following the conclusion of the strategic review in 2015, new reporting segments have been established reflecting the implementation of the Group's new structure. The new segmental structure and the new adjusted operating cash flow measures are consistent with the internal reporting to, and regular review by, the Group's Executive Committee (which is the entity's Chief Operating Decision Maker as defined by IFRS 8: 'Operating segments') for the purposes of evaluating segmental performance and allocating resources. In accordance with IFRS 8, the segmental analysis disclosures in note 5 have been restated accordingly. Additionally, the goodwill allocation to cash generating units has been amended following the change in the segmental structure, reflecting the level at which goodwill is monitored for internal management purposes.

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.

Note 5 contains 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 5 also details 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 segment operating profit after taxation, before exceptional items and certain re-measurements. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

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

A reconciliation of earnings 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 via Centrica's Scottish Limited Partnership entities; 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 since the Directors do not consider these to represent underlying business performance. Deficit reduction payments and movements in variation margin and cash collateral are excluded since the Directors do not consider these to represent the operating cash flows generated by underlying business performance in the current year, since they are predominantly triggered by wider market factors and, in the case of variation margin and cash collateral, this represents a timing difference. 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 readers 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 our 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'), the rules within IAS 39 require 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.

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 (in the results before certain re-measurements).

Notes to the Financial Statements

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

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 a 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 and asset write-downs/impairments.

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 6);
- the use of adjusted profit, adjusted earnings per share and adjusted operating cash flow measures (see notes 2, 5 and 10); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements (see notes 2, 6 and 13).

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 the current period, the Group disposed of its investment in GLID Wind Farms TopCo Limited (GLID), which owns Glens of Foudland, Lynn and Inner Dowsing wind farms, as part of this strategy (see note 15). The profit on disposal of £73 million has been classified as an exceptional item in the Group Income Statement since the Directors judge the exit from the wind business to be non-recurring in nature and distinct from the Group's established wind farm strategy. The disposal of Lincs Wind Farm Limited announced on 13 January 2017 will be treated in the same way in 2017.

Leases – third-party power station tolling arrangements

The Group had two long-term power station tolling contracts that were considered leases during 2016: (i) Spalding in the UK and (ii) Rijnmond in the Netherlands (although the Rijnmond tolling agreement was terminated with effect from 1 July 2016). The arrangements provided Centrica with the right to nominate 100% of the plant capacity for the duration of the contracts 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, 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 and the finance lease payable are included in notes 7 and 11 respectively.

Prior to its termination, the Rijnmond contract ran until 2030 and Centrica did not have the right to extend the agreement or any option to purchase the plant. Management had determined that the arrangement should be accounted for as an operating lease, as the lease term was not 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 did not amount to substantially all of the fair value of the power station at that time. See note 6 for further details of the impact of the termination of the contract.

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 has made two significant acquisitions: ENER-G Cogen and Neas Energy. These acquisitions have been accounted for as business combinations as set out in note 15(a).

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 is owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provides the Group with the ability to control the business plan and budgets and consequently the general operation of the assets. Accordingly, this arrangement has been assessed under IFRS 10: 'Consolidated financial statements' and the conclusion has been reached that the Group has power over the relevant activities of CQECP. This entity has been fully consolidated into the Group's Financial Statements and QPI's ownership share is represented as a non-controlling interest.

Disposal groups classified as held for sale

The Canadian Exploration & Production business, which is subject to a sale process, was not considered to meet the conditions under IFRS 5: 'Non-current assets held for sale and discontinued operations' to be classified as held for sale at the balance sheet date. Although plans to sell the business had been announced and negotiations with buyers had commenced, significant uncertainty remained such that it was not considered highly probable at the balance sheet date that any sale would be completed within one year.

On 13 January 2017, the Group announced an agreement to sell its remaining wind farm interest, Lincs Wind Farm Limited, with completion occurring on 17 February 2017. The investment in the wind farm and associated shareholder loan have been classified as a disposal group held for sale at the year end, since a sale was judged to be highly probable at that date, which was subsequently confirmed by the announcement.

The Group's Exploration & Production assets in Trinidad and Tobago have also been classified as a disposal group held for sale following an announcement on 30 November 2016 of the sale. See note 15(c) for further details.

Uncertain taxation provisions

The Group operates internationally in territories with different and complex tax codes.

Management exercises judgement in relation to the level of provision required for uncertain tax outcomes. There are a number of tax positions not yet agreed with the tax authorities where different interpretations of legislation and commercial arrangements could lead to a range of outcomes. Judgements are made for each position having regard to the particular circumstances and advice obtained.

Management also exercises judgement in assessing the availability of suitable future taxable profits to support deferred tax asset recognition. Further details of the Group's tax position are provided in note 8.

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 had a delivery date of 31 March 2015. ECO phase 2 must be delivered by 31 March 2017. The Group continues to judge that it is not legally obligated by this order until 31 March 2017 for ECO phase 2. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made, resulting in obligations that cannot be avoided.

In prior periods, the Group had entered into a number of contractual arrangements and commitments, and issued a public statement to underline its commitment to deliver a specific proportion of the ECO requirements. Consequently, the Group's result had included the costs of these contractual arrangements and commitment obligations.

Metering contracts

The Department of Energy and Climate Change (DECC) has modified the 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 are not leases because it does not have the right to physically or operationally control the smart meters and other parties also take a significant amount of the output from the assets.

(b) Key sources of estimation uncertainty

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 (unread). 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 reads being returned and system estimates. Actual meter reads 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.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

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 2066, with the majority of the costs expected to be paid between 2020 and 2040.

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 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.

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 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 69.

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.

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 6. 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 gas and oil assets, power generation assets, storage facility assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill.

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.

Considering the uncertainty with the disposal process of the Group's Canadian gas and oil assets, significant judgement was required in determining the recoverable amount of the assets and a range of possible outcomes exist. The recoverable amount is particularly sensitive to the price assumptions made in the impairment calculations and the outcome of the disposal process.

Further details of the assumptions used in determining the recoverable amounts and the impairment reversals booked during the year and sensitivity to the assumptions are provided in note 6.

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 6.

Storage facility assets

The recoverable amount of our operational storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price spreads and shorter-term price volatilities and the value from extracting cushion gas at the end of the field life less any related capital and operating expenditure. Further details of the impairments booked during the year and sensitivity to the assumptions are provided in note 6.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 6.

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 assumptions used in determining the recoverable amounts and the sensitivity to these assumptions are provided in note 6.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables 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. 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.

Following issues arising from the implementation of a new billing system in UK Business in 2014, management has exercised additional judgement regarding the appropriate level of provision for these trade receivables. Changes in these judgements could also lead to movements in the provisions and therefore impact the Group Income Statement. Within UK Business the volume of gross billed debt outstanding fell to £612 million at the year end compared to £894 million for the prior year. Within this, the balance of debt greater than 12 months old increased to £242 million from £221 million with an appropriate bad debt provision maintained. Cash collected has exceeded billed revenue during the year by 8%.

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 14.

Provisions for onerous contracts

The Group has entered into a number of commodity procurement and capacity contracts related to specific assets in the ordinary course of its business. Where the unavoidable costs of meeting the obligations under these contracts exceed the associated expected future net benefits, an onerous contract provision is recognised. The calculation of these provisions will involve the use of estimates. The key onerous provisions are as follows:

Spalding power station onerous contract provision

The onerous provision is calculated by taking the unavoidable costs that will be incurred under the contract, excluding those that are treated as minimum lease payments and included within the Group's finance lease liability, deducting any estimated revenues. Further details of the release of the provision in 2016 are provided in note 6.

European gas transportation capacity contracts

The onerous provision is calculated using capacity costs incurred under the contracts, less any predicted income. The provision calculation assumes that contracts for capacity in continental Europe are onerous but those that enable gas to be transported directly back into the UK may be necessary to achieve security of supply in the future. Therefore, no provision has been recognised relating to these latter contracts.

Direct Energy wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates. Further details of the release of the provision during the year are provided in note 6.

Notes to the Financial Statements

4. RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of risks. The processes for managing these risks are set out in the 2015 Annual Report and Accounts. During the year, the risks that were prioritised for leadership attention related to:

- ensuring we deliver a safe and compliant operating environment in all respects;
- our strategic transformation and its impact on our people;
- the changing political environment, and the potential for further intervention, including Brexit;
- the evolving regulatory requirements, particularly the outcome of the Competition and Markets Authority (CMA) investigation;
- ongoing volatility in the commodity market with its impact on pricing; and
- our commitment to our growth businesses and excellence in customer service.

The Group Financial Risk Management Committee (GFRMC) continued to advise on consolidated Group-wide commodity price risks according to objectives, targets and policies set out by the Board. 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 and collateral risk policy. Downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk for financial assets

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for 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 base trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and large liquidity requirements. In addition the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. 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 2016, the Group had undrawn committed credit facilities of £4,497 million (2015: £4,379 million) and £1,881 million (2015: £935 million, restated for reclassification of bank overdrafts, see note 1 for more details) of unrestricted cash and cash equivalents. 186% (2015: 136%) 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 11.6 years (2015: 12.0 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 11(b) for movement in cash posted or received as collateral.

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.

5. 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 11 to 23).

(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
Energy Supply & Services – UK & Ireland	
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.
UK Business	The supply of gas and electricity and provision of energy-related services to business customers 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.
Energy Supply & Services – North America	
NA Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters, solar power generating equipment and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
NA 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.
Connected Home	The supply of energy efficiency solutions and new technologies to residential customers in all geographies in which the Group operates.
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 in the UK and Europe.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK, Europe and North America.
Central Power Generation	Generation of power from combined cycle gas turbines (CCGT), wind and nuclear assets in the UK.
Centrica Storage	Gas storage in the UK.

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5. 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.

Year ended 31 December	**Gross segment revenue** 2016 **£m**	**Less inter-segment revenue** 2016 **£m**	**Group revenue** 2016 **£m**	Gross segment revenue (restated) (i) 2015 £m	Less inter-segment revenue (restated) (i) 2015 £m	Group revenue (restated) (i) 2015 £m
Energy Supply & Services – UK & Ireland						
UK Home	**9,252**	**(8)**	**9,244**	9,822	–	9,822
UK Business	**2,031**	**(1)**	**2,030**	2,389	(2)	2,387
Ireland	**781**	**–**	**781**	733	–	733
	12,064	**(9)**	**12,055**	12,944	(2)	12,942
Energy Supply & Services – North America						
NA Home	**2,702**	**–**	**2,702**	2,655	–	2,655
NA Business	**7,664**	**–**	**7,664**	7,932	–	7,932
	10,366	**–**	**10,366**	10,587	–	10,587
Connected Home	**33**	**(8)**	**25**	19	(4)	15
Distributed Energy & Power	**161**	**(2)**	**159**	95	(3)	92
Energy Marketing & Trading	**3,282**	**(88)**	**3,194**	3,101	(144)	2,957
Exploration & Production	**1,642**	**(871)**	**771**	2,035	(1,206)	829
Central Power Generation	**667**	**(209)**	**458**	668	(225)	443
Centrica Storage	**93**	**(19)**	**74**	156	(50)	106
	28,308	**(1,206)**	**27,102**	29,605	(1,634)	27,971

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) **2016 £m**	Revenue (based on location of customer) 2015 £m	Non-current assets (based on location of assets) (ii) **2016 £m**	Non-current assets (based on location of assets) (ii) 2015 £m
UK	**14,459**	15,654	**6,445**	6,281
North America	**10,502**	10,728	**3,281**	2,827
Norway	**370**	297	**1,299**	1,005
Rest of the world	**1,771**	1,292	**353**	179
	27,102	27,971	**11,378**	10,292

(i) Segmental revenue has been restated in the new reporting segments. See note 1 for further information.
(ii) Non-current assets include goodwill, other intangible assets, PP&E and interests in joint ventures and associates.

5. 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) 2016 £m	Adjusted operating profit/(loss) 2015 (restated) (i) £m	Adjusted operating profit/(loss) after taxation 2016 £m	Adjusted operating profit/(loss) after taxation 2015 (restated) (i) £m
Energy Supply & Services – UK & Ireland				
UK Home	**810**	880	**672**	707
UK Business	**50**	(19)	**42**	(16)
Ireland	**46**	30	**41**	24
	906	891	**755**	715
Energy Supply & Services – North America				
NA Home	**93**	77	**61**	36
NA Business	**221**	246	**145**	148
	314	323	**206**	184
Connected Home	**(50)**	(49)	**(40)**	(39)
Distributed Energy & Power	**(26)**	(32)	**(20)**	(17)
Energy Marketing & Trading	**161**	66	**124**	55
Exploration & Production	**187**	95	**50**	(2)
Central Power Generation (ii)	**75**	128	**66**	105
Centrica Storage (iii)	**(52)**	37	**(53)**	25
	1,515	1,459	**1,088**	1,026
Share of joint ventures'/associates' interest and taxation	**(48)**	(61)		
Operating profit before exceptional items and certain re-measurements	**1,467**	1,398		
Exceptional items (note 6)	**(11)**	(2,358)		
Certain re-measurements included within gross profit (note 6)	**1,058**	116		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**(28)**	(13)		
Operating profit/(loss) after exceptional items and certain re-measurements	**2,486**	(857)		

Year ended 31 December	2016 £m	2015 £m
Adjusted operating profit after taxation (iv)	**1,088**	1,026
Impact of changes to UK corporation tax rates (note 8) (v)	**30**	46
Corporate and other taxation, and interest (net of taxation) (vi)	**(233)**	(239)
Business performance profit for the year	**885**	833
Exceptional items and certain re-measurements (net of taxation) (note 6)	**777**	(1,717)
Statutory profit/(loss) for the year	**1,662**	(884)

(i) Adjusted operating profit has been restated in the new reporting segments. See note 1 for further details.
(ii) The effective tax rate in the Central Power Generation segment is lower than the standard UK Corporation tax rate of 20% due to prior year tax adjustments and non-taxable income in the segment's associate's profits.
(iii) The effective tax rate in the Centrica Storage segment is lower than the standard UK Corporation tax rate of 20% due to the mix of profits and losses across upstream and downstream activities, to which different tax rates apply (see note 8).
(iv) Segment operating profit after taxation includes loss of £5 million (2015: £27 million) attributable to non-controlling interests.
(v) Includes £9 million (2015: £19 million) relating to equity accounted interests.
(vi) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements

5. 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 2016 £m	2015 (restated) (i) £m	Depreciation and impairments of property, plant and equipment 2016 £m	2015 (restated) (i) £m	Amortisation, write-downs and impairments of intangibles 2016 £m	2015 (restated) (i) £m
Energy Supply & Services – UK & Ireland						
UK Home	**–**	(1)	**(51)**	(52)	**(111)**	(90)
UK Business	**–**	–	**(2)**	(2)	**(11)**	(10)
Ireland	**–**	–	**(2)**	(1)	**(9)**	(6)
	–	(1)	**(55)**	(55)	**(131)**	(106)
Energy Supply & Services – North America						
NA Home	**–**	–	**(6)**	(5)	**(49)**	(42)
NA Business	**–**	–	**(2)**	(1)	**(39)**	(47)
	–	–	**(8)**	(6)	**(88)**	(89)
Connected Home	**–**	–	**–**	–	**(6)**	(2)
Distributed Energy & Power	**–**	–	**(6)**	(2)	**(9)**	(1)
Energy Marketing & Trading	**–**	–	**–**	–	**(11)**	(16)
Exploration & Production	**–**	–	**(578)**	(753)	**(25)**	(77)
Central Power Generation	**178**	262	**(27)**	(33)	**–**	–
Centrica Storage	**–**	–	**(36)**	(33)	**(1)**	(1)
Other (ii)	**–**	–	**(27)**	(11)	**(17)**	(13)
	178	261	**(737)**	(893)	**(288)**	(305)

(i) The share of results of joint ventures and associates, the depreciation and impairments of property, plant and equipment and the amortisation, write-downs and impairments of intangibles have been restated in the new reporting segments. See note 1 for further information.
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairment of property, plant and equipment

During 2016, an £86 million impairment charge (2015: £4 million) was recognised in the Exploration & Production segment; a £3 million impairment write-back (2015: £3 million impairment charge) was recognised in the Central Power Generation segment and a £1 million impairment charge (2015: nil) was recognised in the Distributed Energy & Power segment, all within business performance.

Write-downs and impairments of intangible assets

During 2016, £19 million of write-downs (2015: £71 million) relating to exploration and evaluation assets were recognised in the Exploration & Production segment and a £1 million impairment (2015: nil) of application software was recognised in the Ireland segment, both within business performance.

5. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

Year ended 31 December	Capital expenditure on property, plant and equipment 2016 £m	2015 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill 2016 £m	2015 (restated) (i) £m
Energy Supply & Services – UK & Ireland				
UK Home	**48**	79	**327**	369
UK Business	**1**	1	**164**	170
Ireland	**5**	2	**6**	5
	54	82	**497**	544
Energy Supply & Services – North America				
NA Home	**6**	8	**3**	15
NA Business	**6**	6	**210**	151
	12	14	**213**	166
Connected Home	**3**	–	**21**	9
Distributed Energy & Power	**9**	1	**1**	3
Energy Marketing & Trading	**7**	–	**40**	29
Exploration & Production	**528**	615	**11**	81
Central Power Generation	**13**	11	**–**	–
Centrica Storage	**33**	32	**–**	1
Other (ii)	**15**	15	**53**	20
Capital expenditure	**674**	770	**836**	853
Capitalised borrowing costs	**(61)**	(46)	**(1)**	(2)
Movements in payables and prepayments related to capital expenditure	**8**	7	**–**	5
Purchases of emissions allowances and renewable obligation certificates	**–**	–	**(627)**	(617)
Net cash outflow (iii)	**621**	731	**208**	239

(i) Both the capital expenditure on property, plant and equipment and the capital expenditure on intangible assets other than goodwill have been restated in the new reporting segments. See note 1 for further details.
(ii) The Other segment relates to corporate assets.
(iii) The cash outflow relating to intangible assets includes £11 million (2015: £81 million) relating to exploration and evaluation of gas and oil assets.

Notes to the Financial Statements

5. 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	2016 £m	2015 £m
Energy Supply & Services – UK & Ireland		
UK Home	1,053	724
UK Business	418	(132)
Ireland	84	31
	1,555	623
Energy Supply & Services – North America		
NA Home	146	158
NA Business	285	338
	431	496
Connected Home	(58)	(46)
Distributed Energy & Power	(15)	(14)
Energy Marketing & Trading	198	248
Exploration & Production	655	787
Central Power Generation	(1)	130
Centrica Storage	(49)	112
Other [(i)]	(30)	(83)
Adjusted operating cash flow	2,686	2,253
Dividends received from joint ventures and associates	(117)	(180)
UK pension deficit payments	(77)	(77)
Payments relating to exceptional charges	(273)	(81)
Margin and cash collateral included in net debt	177	282
Net cash flow from operating activities	2,396	2,197

(i) The Other segment includes corporate functions.

6. 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 asset write-downs/impairments.

(a) Exceptional items

Year ended 31 December	2016 £m	2015 £m
Pension past service credit (i)	78	–
Net release of/(provision for) onerous power procurement contracts (ii)	53	(90)
Restructuring costs (iii)	(228)	–
Net gain on disposal of businesses and assets (iv)	101	–
Write-back/(impairment) of exploration and production assets (v)	135	(1,865)
Write-back/(impairment) of combined cycle gas turbine (CCGT) power stations (vi)	26	(31)
Impairment of UK gas storage assets (vii)	(176)	–
Impairment of Nuclear investment	–	(372)
Exceptional items included within Group operating profit/(loss)	**(11)**	**(2,358)**
Net taxation on exceptional items (note 8)	9	477
Effect of change in UK upstream tax rates (note 8) (viii)	29	116
Impairment of exploration and production deferred tax assets (note 8)	–	(81)
Net exceptional items after taxation	**27**	**(1,846)**

(i) As a result of the implementation of a reduced salary cap on pensionable pay for the Centrica Pension Plan final salary scheme, a past service credit of £80 million (net of £2 million costs of implementing the changes) has been recognised. See note 14.

(ii) The Group recognised two reductions in onerous contract provisions established in prior periods: a £64 million reduction in relation to its UK gas-fired power station tolling contract (within the Central Power Generation segment) as a consequence of both a renegotiation of the contract and changes in the UK capacity market; £15 million reduction in relation to its Direct Energy wind power procurement arrangement (within the NA Business segment) as a result of changes to forecast US power prices. Separately, an additional charge of £26 million was booked due to the termination of the Group's onerous Rijnmond gas-fired power station tolling contract (within the Energy Marketing & Trading segment).

(iii) Following the extensive strategic review announced in 2015, the Group has incurred restructuring costs implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses and consultancy costs. The costs have been incurred in Energy Supply & Services – UK & Ireland (£140 million), Energy Supply & Services – North America (£26 million) and Exploration & Production (£23 million). The remaining amount (£39 million) predominantly relates to Corporate Centre costs that have not been allocated to specific segments.

(iv) On 7 March 2016, the Group disposed of its joint venture investment in GLID wind farms for £116 million and recorded a gain on disposal of £73 million within the Central Power Generation segment. On 18 May 2016, the Group disposed of its interest in Skene and Buckland gas and oil assets for an adjusted consideration of $14 million (£10 million) and a gain of £50 million is recorded within the Exploration & Production segment. On 9 October 2016 and 14 November 2016, the Group disposed of Airco Mechanical Ltd. and Airtron Canada (Direct Energy Business Services Limited), two non-core NA Home businesses, for consideration of $10 million and C$5 million respectively (£11 million) and a loss on disposal of £22 million. See note 15(d).

(v) In the Exploration & Production segment, write-backs of assets and reductions to decommissioning provisions have been booked relating to increases in value of certain UK, Dutch and Norwegian gas and oil fields (pre-tax write-back £79 million, post-tax £62 million), predominantly due to increases in reserves, cost savings and revisions to decommissioning estimates (see note 6(c) for further details) and the Group's remaining exploration and production assets in Trinidad and Tobago (pre-tax write back £56 million, post-tax £45 million), which are being disposed of to Shell and have been classified as a disposal group held for sale at the year end (see note 15(c)) with the agreed sales proceeds triggering the write-back.

(vi) A pre-tax write-back of £26 million has been recorded in the current period in respect of the Kings Lynn asset held in the Central Power Generation segment following the award of a 15-year capacity contract. See note 6(c).

(vii) A pre-tax impairment charge of £176 million (post-tax: £144 million) has been recorded in the current period in respect of UK gas storage assets. See note 6(c) for further details.

(viii) During the year, the petroleum revenue tax (PRT) rate was reduced from 35% to 0% and supplementary corporation tax (SCT) was reduced from 20% to 10% with effect from 1 January 2016. These changes have been substantively enacted by the reporting date and the net change in deferred tax has been recognised immediately as an exceptional tax gain.

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.

(b) Certain re-measurements

Year ended 31 December	2016 £m	2015 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net gains arising on delivery of contracts	968	973
Net gains/(losses) arising on market price movements and new contracts	90	(857)
Net re-measurements included within gross profit	**1,058**	**116**
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(28)	(13)
Net re-measurements included within Group operating profit/(loss)	**1,030**	**103**
Taxation on certain re-measurements (note 8) (i)	(280)	26
Net re-measurements after taxation	**750**	**129**

(i) Includes £16 million gain (2015: £20 million gain) due to the effect of change in UK tax rates.

The Group is generally a net buyer of commodity, procuring gas and power for our customers. Following market recovery in commodity prices during 2016, net gains arising on market price movements and new contracts of £90 million (2015: £857 million loss) have been recorded.

Notes to the Financial Statements

6. 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) 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 unit pro rata on the basis of the carrying amount of each asset in the unit.

VIU calculations have been used to determine recoverable amounts for all CGUs that include goodwill and indefinite-lived intangible asset balances with the exception of the impairment tests for the Exploration & Production gas and oil CGUs, where FVLCD has been used. This methodology is deemed to be more appropriate for these 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. Subsequently, the specific, underlying Exploration & Production gas and oil PP&E assets and, in addition, the Group's associate investment in Nuclear and the Storage PP&E assets have also used the FVLCD impairment methodology. UK power generation assets have used the VIU impairment methodology.

FVLCD discount rate and cash flow assumptions

Exploration & Production – gas and oil production

A write-back of £135 million (2015: impairment £1,865 million) has been recorded within exceptional items for exploration and production assets including £16 million of reductions to decommissioning provisions. For those assets subject to the impairment write-back, the associated recoverable amounts (net of decommissioning costs) of £756 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. 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 9% (2015: 9%) 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, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Exploration & Production goodwill is 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 and production assets, an increase in gas and oil prices of 10% would potentially reverse £89 million (2015: £327 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 exploration and production assets of £166 million (2015: £245 million) but no further post-tax impairment of goodwill (2015: £238 million) due to headroom arising in the year. The Canada and Trinidad and Tobago exploration and production assets are the subject of disposal processes and therefore have been excluded from the current year sensitivities. In the case of the Canadian E&P assets, the outcome of the disposal process could result in a range of possible outcomes, including the disposal of the entire Canadian E&P business (either to a sole buyer or multiple buyers), or of the assets being retained. The recoverable amount of the Canadian assets is therefore subject to uncertainty. In determining an appropriate recoverable amount the external bids have been considered together with discounted post-tax cash flows expected to be generated by the assets over their lives. This assessment supports the asset carrying values and accordingly no impairment has been booked. A 10% increase/decrease in gas and oil prices would increase/decrease the recoverable amounts of these net assets by £207 million/£208 million respectively. Commodity prices and the outcome of the current disposal process are the main determinants in the value of these assets.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

Central Power Generation – Nuclear

No impairment charge has been recorded (2015: £372 million) 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. 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 8% (2015: 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, 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%. An increase in power prices of 10%, assuming all other assumptions remain constant, would result in a reversal of previous impairments of £444 million (2015: £453 million). A reduction of 10% would give rise to a further impairment charge of £461 million (2015: £436 million).

Storage

The recoverable amount of the Group's operational storage facilities is calculated on a FVLCD basis by discounting the post-tax cash flows expected to be generated by the assets. Such estimates are based on predictions of seasonal gas price spreads, shorter-term price volatilities and the value from extracting cushion gas at the end of the field life less any related capital and operating expenditure that a typical market participant might use to assess value. Where forward market prices are not available (that is outside the active period for each commodity), prices are determined based on internal model inputs. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7.5% (2015: 7.5%) to determine FVLCD.

A pre-tax impairment charge of £176 million (post-tax £144 million) has been recorded within exceptional items in the current period. This has resulted from the decision to decommission the 8A platform and from updated assumptions on asset availability in the near term and future asset expenditure.

The impairment test remains particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the storage asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed to vary the gas spreads by +/-10%. An increase in gas spreads of 10%, assuming all other assumptions remain constant, would lead to a potential post-tax impairment write-back of £66 million. A reduction of 10% would give rise to a further post-tax impairment of £80 million.

The valuation of the recoverable amount of the operational storage facilities is categorised within Level 3 of the fair value hierarchy. A change in the assumptions of the timing and extent of the return to maximum operating pressure could also significantly impact the impairment calculation and could result in a further impairment in certain adverse scenarios. Furthermore, the Group is considering the strategic options open to Centrica Storage to determine its long term future. Following the impairment charge recorded in the period, the current value of the Group's gas storage fixed assets is £417 million (£112 million, net of the decommissioning provision and deferred tax).

VIU discount rate and cash flow assumptions

Central Power Generation – CCGT power stations

An impairment write-back of £26 million has been recorded within exceptional items for the Kings Lynn power station following the award of a 15-year capacity contract. In 2015, a £31 million impairment charge was recognised in relation to the segment's Spalding finance leased UK gas-fired power station.

The recoverable amount was determined using VIU calculations, with future cash flows discounted using a pre-tax nominal discount rate of 7.4% (2015: 7.4%). Cash inflows were based on forecast production profiles, forward prices for power, gas and carbon and forecast capacity market auction prices. Where forward market prices were not available (that is outside the active period for each commodity), prices were determined based on internal model inputs. Cash outflows for operating and capital expenditure were based, for the first five years, on the Group's Board-approved business plans and thereafter were based on long-term production and cash flow forecasts.

The impairment write-back has been adjusted for depreciation that would have occurred had no impairment loss been recognised in prior years.

Notes to the Financial Statements

7. NET FINANCE COST

Financing costs mainly comprise interest on bonds, bank debt and commercial paper, 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. 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, government bonds and notional interest on pensions.

Year ended 31 December	2016 Financing costs £m	2016 Investment income £m	2016 Total £m	2015 Financing costs £m	2015 Investment income £m	2015 Total £m
Cost of servicing net debt						
Interest income	–	35	35	–	50	50
Interest cost on bonds, bank loans and overdrafts	(305)	–	(305)	(289)	–	(289)
Interest cost on finance leases	(15)	–	(15)	(15)	–	(15)
	(320)	35	(285)	(304)	50	(254)
Net gains/(losses) on revaluation (i)	–	2	2	(2)	–	(2)
Notional interest arising from discounting and other interest	(79)	–	(79)	(76)	5	(71)
	(399)	37	(362)	(382)	55	(327)
Capitalised borrowing costs (ii)	62	–	62	48	–	48
(Cost)/income	(337)	37	(300)	(334)	55	(279)

(i) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans, and foreign currency gains and losses on the translation of inter-company loans.
(ii) Borrowing costs have been capitalised using an average rate of 4.53% (2015: 4.20%). Capitalised interest has attracted tax deductions totalling £18 million (2015: £14 million), with deferred tax liabilities being set up for the same amounts.

8. TAXATION

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits. 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.

Analysis of tax charge

Year ended 31 December	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Results for the year £m	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the year £m
Current tax						
UK corporation tax	(103)	134	31	(233)	(75)	(308)
UK petroleum revenue tax	8	–	8	(30)	–	(30)
Non-UK tax	(220)	16	(204)	(206)	–	(206)
Adjustments in respect of prior years – UK	60	53	113	198	–	198
Adjustments in respect of prior years – non-UK	4	–	4	(24)	–	(24)
Total current tax	(251)	203	(48)	(295)	(75)	(370)
Deferred tax						
Origination and reversal of temporary differences – UK	54	(174)	(120)	91	274	365
UK petroleum revenue tax	(12)	–	(12)	46	11	57
Origination and reversal of temporary differences – non-UK	(75)	(262)	(337)	24	192	216
Change in tax rates (i)	21	45	66	27	136	163
Adjustments in respect of prior years – UK	(59)	(60)	(119)	(169)	–	(169)
Adjustments in respect of prior years – non-UK (ii)	40	6	46	(10)	–	(10)
Total deferred tax	(31)	(445)	(476)	9	613	622
Total tax on profit/(loss) (iii)	(282)	(242)	(524)	(286)	538	252

(i) During the year, the UK upstream Supplementary Charge was reduced from 20% to 10% and UK petroleum revenue tax from 35% to 0% with effect from 1 January 2016. The consequential reduction in net deferred tax liabilities of £36 million has been recognised within exceptional items (£29 million) and certain re-measurements (£7 million), and includes a petroleum revenue tax charge of £90 million (2015: £33 million). Other rate change impacts relate to the future reduction in the UK standard rate to 17% (see below).
(ii) A comprehensive review as part of business transformation activities in North America during the year enabled certain deferred tax balances to be adjusted.
(iii) Total tax on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

8. TAXATION

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 2016 was 20% (2015: 20.25%). Upstream gas and oil production activities are taxed at a UK corporation tax rate of 30% (2015: 30%) plus a supplementary charge of 10% (2015: 20%) to give an overall rate of 40% (2015: 50%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2015: 50% which was deductible against corporation tax), giving an overall effective rate of 40% (2015: 75%).

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 2016, 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 25% (2015: 27%) plus a special tax of 53% (2015: 51%) resulting in an aggregate tax rate of 78% (2015: 78%). Profits earned in the US are taxed at a Federal rate of 35% (2015: 35%) together with state taxes at various rates dependent on the state. 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 55% in Trinidad and Tobago. The tax charges are not material in such jurisdictions.

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

9. DIVIDENDS

Dividends represent the cash 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.

	£m (i)	**Pence per share**	**2016 Date of payment**	£m	Pence per share	2015 Date of payment
Prior year final dividend	**454**	**8.43**	**23 Jun 2016**	418	8.40	25 Jun 2015
Interim dividend	**197**	**3.60**	**24 Nov 2016**	180	3.57	26 Nov 2015
	651			598		

(i) Included within the prior year final dividend are forfeited dividends of £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 £461 million) for the year ended 31 December 2016. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 8 May 2017 and, subject to approval, will be paid on 29 June 2017 to those shareholders registered on 12 May 2017.

Commencing with the final dividend for the year ended 31 December 2014, the Company has offered a scrip dividend alternative to its shareholders. £84 million of the £454 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 £2.02 per share resulting in the issue of 41 million new shares and £81 million of share premium.

Similarly, £41 million of the £197 million interim dividend was taken as a scrip dividend. The market value per share at the date of payment was £2.13 resulting in the issue of 19 million new shares and £40 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. 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

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 profit per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £1,672 million (2015: £747 million loss) by the weighted average number of ordinary shares in issue during the year of 5,318 million (2015: 5,011 million). The number of shares excludes 61 million ordinary shares (2015: 72 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 May 2016, 350 million new ordinary shares were issued at 200.0 pence per share which represented approximately 7% of the issued ordinary share capital prior to the placing.

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, no adjustments are made to the reported profit/(loss) for either 2016 or 2015, however, 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	**2016 Million shares**	2015 Million shares
Weighted average number of shares – basic	**5,318**	5,011
Dilutive impact of share-based payment schemes (i)	**43**	38
Weighted average number of shares – diluted	**5,361**	5,049

(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. Therefore, these shares are excluded from the calculation of basic diluted EPS in 2015.

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	**2016 £m**	**2016 Pence per ordinary share**	2015 £m	2015 Pence per ordinary share
Profit/(loss) – basic	**1,672**	**31.4**	(747)	(14.9)
Net exceptional items after taxation (notes 2 and 6) (i)	**(27)**	**(0.5)**	1,739	34.7
Certain re-measurement gains after taxation (notes 2 and 6)	**(750)**	**(14.1)**	(129)	(2.6)
Earnings – adjusted basic (i)	**895**	**16.8**	863	17.2
Profit/(loss) – diluted	**1,672**	**31.2**	(747)	(14.9)
Earnings – adjusted diluted (i)	**895**	**16.7**	863	17.1

(i) Net exceptional profit after taxation of £27 million (2015: £1,846 million loss) is reduced by nil (2015: £107 million) 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.

11. SOURCES OF FINANCE

(a) Capital structure

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

31 December	**2016 £m**	2015 £m
Net debt	**3,473**	4,747
Equity	**2,666**	1,178
Capital	**6,139**	5,925

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, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense. Adjusted EBITDA is defined as earnings from business performance before share of results of joint ventures and associates and before interest, tax, depreciation, impairments and amortisation. At 31 December 2016, the ratio of the Group's net debt to adjusted EBITDA was 1.5 (2015: 2.0). Adjusted EBITDA to gross interest expense for the year ended 31 December 2016 was 5.9 (2015: 6.3). This measure now excludes capitalised interest, so the comparative has been restated accordingly.

11. SOURCES OF FINANCE

Under the terms of the Company's Articles of Association, the Group's borrowings are subject to certain limits. At the start of 2016, the limit in operation was the higher of £5 billion and three times adjusted capital and reserves. As at the date of approval of the consolidated Group Financial Statements for the year ended 31 December 2015, there was a technical breach of Article 94, predominantly due to asset impairments and a resulting reduction in capital and reserves. A resolution was put to the Company's shareholders at the Annual General Meeting in April 2016, at which time an increase to the limit was approved. Gross borrowings are now restricted to the higher of £10 billion and three times adjusted capital and reserves and the Group is operating within this limitation.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2016 (and 2015).

(b) 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.

	Cash and cash equivalents, net of bank overdrafts (i) (ii) £m	Cash posted/ (received) as collateral (iii) £m	Current and non-current securities (iv) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits £m	Derivatives £m	Net debt £m
1 January 2015	621	776	274	(6,956)	89	(5,196)
Cash inflow from sale of securities (v)	26	–	(26)	–	–	–
Cash inflow from additional borrowings	1,000	–	–	(1,000)	–	–
Cash outflow from payment of capital element of finance leases	(35)	–	–	35	–	–
Cash outflow from repayment of borrowings	(1,615)	–	–	1,615	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vi)	879	(282)	–	–	–	597
Revaluation	–	–	–	26	(16)	10
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(26)	9	(17)
New finance lease agreements	–	–	–	(49)	–	(49)
Exchange adjustments	(16)	41	(4)	(113)	–	(92)
31 December 2015	860	535	244	(6,468)	82	(4,747)
Net cash inflow from sale/purchase of securities (v)	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 (vi)	1,496	(177)	–	–	–	**1,319**
Revaluation	–	–	8	(25)	209	**192**
Increase in interest payable and amortisation of borrowings	–	–	–	(8)	–	**(8)**
Acquisition of businesses	–	32	–	(6)	–	**26**
New finance lease agreements	–	–	–	(32)	–	**(32)**
Exchange adjustments and other non-cash movements	53	106	8	(390)	–	**(223)**
31 December 2016	**1,960**	**496**	**232**	**(6,452)**	**291**	**(3,473)**

(i) Cash and cash equivalents includes £155 million (2015: £223 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.
(ii) Cash and cash equivalents are net of £76 million bank overdrafts (2015: £298 million). This is offset by a corresponding gross up in current borrowings.
(iii) 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 at the year end, £21 million (2015: £74 million) is included within trade payables, £307 million (2015: £216 million) within trade receivables, and £210 million (2015: £393 million) has been offset 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.
(iv) Securities balances include £130 million (2015: £124 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £102 million of available-for-sale financial assets (2015: £120 million). The Group has posted £29 million (2015: £28 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.
(v) Includes sale of shares in Enercare Inc. which were sold in 2016 for consideration of C$61 million (£31 million) (2015 sales were C$60 million (£26 million)).
(vi) 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

11. SOURCES OF FINANCE

(c) Borrowings, finance leases and interest accruals summary

31 December	Coupon rate %	Principal m	31 December 2016 Current £m	31 December 2016 Non-current £m	31 December 2016 Total £m	31 December 2015 (restated) (i) Current £m	31 December 2015 (restated) (i) Non-current £m	31 December 2015 (restated) (i) Total £m
Bank overdrafts			**(76)**	**–**	**(76)**	(298)	–	(298)
Bank loans			**–**	**(148)**	**(148)**	–	(222)	(222)
Bonds (by maturity date):								
24 October 2016	5.500	£300	**–**	**–**	**–**	(308)	–	(308)
14 April 2017	Floating	$200	**(162)**	**–**	**(162)**	–	(136)	(136)
19 September 2018	7.000	£400	**–**	**(425)**	**(425)**	–	(433)	(433)
1 February 2019	3.213	€100	**–**	**(85)**	**(85)**	–	(74)	(74)
25 September 2020	Floating	$80	**–**	**(65)**	**(65)**	–	(54)	(54)
22 February 2022	3.680	HK$450	**–**	**(47)**	**(47)**	–	(39)	(39)
10 March 2022	6.375	£500	**–**	**(541)**	**(541)**	–	(523)	(523)
16 October 2023	4.000	$750	**–**	**(622)**	**(622)**	–	(525)	(525)
4 September 2026	6.400	£200	**–**	**(228)**	**(228)**	–	(222)	(222)
16 April 2027	5.900	$70	**–**	**(56)**	**(56)**	–	(47)	(47)
13 March 2029	4.375	£750	**–**	**(751)**	**(751)**	–	(739)	(739)
5 January 2032 (ii)	Zero	€50	**–**	**(54)**	**(54)**	–	(38)	(38)
19 September 2033	7.000	£770	**–**	**(763)**	**(763)**	–	(763)	(763)
16 October 2043	5.375	$600	**–**	**(480)**	**(480)**	–	(401)	(401)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(537)	(537)
25 September 2045	5.250	$50	**–**	**(40)**	**(40)**	–	(33)	(33)
10 April 2075 (iii)	5.250	£450	**–**	**(457)**	**(457)**	–	(450)	(450)
10 April 2076 (iv)	3.000	€750	**–**	**(637)**	**(637)**	–	(550)	(550)
			(162)	**(5,788)**	**(5,950)**	(308)	(5,564)	(5,872)
Obligations under finance leases (v)			**(39)**	**(194)**	**(233)**	(43)	(207)	(250)
Other borrowings			**–**	**–**	**–**	(4)	–	(4)
Interest accruals			**(121)**	**–**	**(121)**	(120)	–	(120)
			(398)	**(6,130)**	**(6,528)**	(773)	(5,993)	(6,766)

(i) Restated for reclassification of £298 million of overdrawn bank balances from cash and cash equivalents to current bank overdrafts, bank loans and other borrowings. See note 1 for further details.
(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 £37 million (2015: £27 million).

Maturity analysis for non-current bank loans at 31 December	2016 £m	2015 £m
2–5 years	**–**	(100)
>5 years	**(148)**	(122)
	(148)	(222)

12. 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 2016 principally arises from its interests in the following entities (reported in the Central Power Generation segment):

- Wind farms – GLID Wind Farms TopCo Limited [(i)] and Lincs Wind Farm Limited [(ii) (iii)]
- Nuclear – Lake Acquisitions Limited.

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2016 Total £m**	2015 Total £m
Income	62	623	1	**686**	745
Expenses excluding certain re-measurements	(50)	(457)	(1)	**(508)**	(484)
Certain re-measurements	–	(29)	–	**(29)**	(14)
	12	137	–	**149**	247
Interest paid	(27)	(5)	–	**(32)**	(53)
Taxation excluding certain re-measurements	4	(20)	–	**(16)**	(8)
Taxation on certain re-measurements	–	1	–	**1**	1
Share of post-taxation results of joint ventures and associates	**(11)**	**113**	**–**	**102**	187

(i) On 7 March 2016, the Group disposed of its 50% interest in GLID Wind Farms TopCo Limited. See note 15(d) for further details.
(ii) As part of the finance arrangements entered into by Lincs Wind Farm Limited, the Group's shares in this company are secured in favour of third parties. The securities would only be enforced in the event that Lincs Wind Farm Limited defaulted on any of their obligations under their respective finance arrangements.
(iii) On 17 February 2017, the Group sold its interest in Lincs Wind Farm Limited. See note 15(c) for further details.

(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	Joint ventures Wind farms £m	Associates Nuclear £m	**2016 Total £m**	2015 Total £m
Share of post-taxation results of joint ventures and associates	(11)	113	**102**	187
Certain re-measurements (net of taxation)	–	28	**28**	13
Interest paid	27	5	**32**	53
Taxation (excluding taxation on certain re-measurements)	(4)	20	**16**	8
Share of adjusted results of joint ventures and associates	**12**	**166**	**178**	261

(c) Interests in joint ventures and associates

	2016			2015		
	Investments in joint ventures and associates £m	Shareholder loans £m	**Total £m**	Investments in joint ventures and associates £m	Shareholder loans £m	Total £m
1 January	1,679	160	**1,839**	2,045	350	2,395
Additions	17	–	**17**	13	–	13
Disposals	21	(41)	**(20)**	(3)	–	(3)
Decrease in shareholder loans	–	–	**–**	–	(190)	(190)
Share of profits for the year	102	–	**102**	187	–	187
Share of other comprehensive income	56	–	**56**	(5)	–	(5)
Transfer to held for sale	(55)	(113)	**(168)**	–	–	–
Impairment	(3)	–	**(3)**	(372)	–	(372)
Dividends [(i)]	(129)	–	**(129)**	(186)	–	(186)
Exchange adjustments	3	–	**3**	–	–	–
31 December	**1,691**	**6**	**1,697**	1,679	160	1,839

(i) Included within dividends is a non-cash £12 million (2015: £6 million) tax credit received in lieu of payment.

Notes to the Financial Statements

12. JOINT VENTURES AND ASSOCIATES

(d) Share of joint ventures' and associates' assets and liabilities

31 December	Associates Nuclear £m	Other £m	2016 Total £m	2015 Total £m
Share of non-current assets	3,670	17	**3,687**	4,124
Share of current assets	638	3	**641**	660
	4,308	20	**4,328**	4,784
Share of current liabilities	(149)	(1)	**(150)**	(306)
Share of non-current liabilities	(1,897)	(4)	**(1,901)**	(2,201)
	(2,046)	(5)	**(2,051)**	(2,507)
Cumulative impairment	(586)	–	**(586)**	(586)
Restricted interest on shareholder loan (i)	–	–	**–**	(12)
Share of net assets of joint ventures and associates	1,676	15	**1,691**	1,679
Shareholder loans	–	6	**6**	160
Interests in joint ventures and associates	**1,676**	**21**	**1,697**	1,839
Net cash/(debt) included in share of net assets	78	–	**78**	(401)

(i) The Group restricted an element of interest received on the shareholder loan to Lincs Wind Farm Limited.

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

31 December	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement/optimisation	**1,420**	**(1,360)**	1,038	(1,782)
Energy derivatives – for proprietary trading	**33**	**(92)**	99	(1)
Interest rate derivatives (i)	**–**	**(30)**	–	(25)
Foreign exchange derivatives (i)	**93**	**(103)**	68	(89)
Energy derivative contracts designated at fair value through profit or loss	**18**	**–**	14	–
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives (i)	**158**	**(6)**	129	(3)
Foreign exchange derivatives (i)	**151**	**(2)**	28	(68)
Total derivative financial instruments	**1,873**	**(1,593)**	1,376	(1,968)
Included within:				
Derivative financial instruments – current	**1,291**	**(1,100)**	936	(1,460)
Derivative financial instruments – non-current	**582**	**(493)**	440	(508)

(i) Included within these categories are £291 million (2015: £82 million) of derivatives used to hedge movements in net debt. See note 11(b).

13. DERIVATIVE FINANCIAL INSTRUMENTS

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	2016 £m	2015 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	(165)	119
North America	(59)	(470)
Structured gas purchase contracts	296	(263)
Structured gas sales contracts	(10)	–
Structured power purchase contracts	(45)	(54)
Other	2	36
Net total	19	(632)

14. POST RETIREMENT BENEFITS

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

(a) Summary of main post retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2016	Total membership as at 31 December 2016
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	3,733	8,651
	Defined benefit career average pension	Open to service engineers only	UK	3,758	5,185
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	3,517	8,722
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	9	10,652
	Defined benefit career average pension	Closed to new members in 2008	UK	1,631	4,112
	Defined contribution pension	Open to new members	UK	15,309	23,245
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	147	175
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	176	205
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	8	384
Direct Energy Marketing Limited	Post retirement benefits	Closed to new members in 2012	Canada	9	262

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 and the Direct Energy Marketing Limited Pension Plan at 1 August 2014. These have been updated to 31 December 2016 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

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14. POST RETIREMENT BENEFITS

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.

(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 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 target return above a return based on a portfolio of gilts, subject to a maximum volatility ceiling. If there have been advantageous asset movements relative to liabilities above a set threshold, then de-risking is undertaken, and as a consequence the return target and maximum volatility ceiling are reduced.

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 Price Index (RPI) and the Consumer Price 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 CPP and CPS career average schemes was implemented. Both the 2011 and 2016 changes result in a reduction in salary risk.

Foreign exchange

Certain of the 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 programmes 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 2016.

Total liabilities of the Registered Pension Schemes 31 December	2016 %
Actives – final salary – capped	**27**
Actives – final salary – uncapped and crystallised benefits	**5**
Actives – career average	**7**
Deferred pensioners	**31**
Pensioners	**30**
	100

14. 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 31 December	**2016** **%**	2015 %
Rate of increase in employee earnings:		
Subject to 2% cap	**1.7**	1.7
Other not subject to cap	**3.2**	3.0
Rate of increase in pensions in payment	**3.2**	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.1**	1.9
In line with RPI	**3.2**	3.0
Discount rate	**2.7**	3.9

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 31 December	**2016** **Male** **Years**	**2016** **Female** **Years**	2015 Male Years	2015 Female Years
Currently aged 65	**23.2**	**24.9**	23.4	25.1
Currently aged 45	**25.0**	**26.8**	25.1	27.0

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.

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 31 December	**2016** **Increase/ decrease in assumption**	**2016** **Indicative effect on scheme liabilities** **%**	2015 Increase/ decrease in assumption	2015 Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–5**	0.25%	+/–4
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–5**	0.25%	+/–4
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

31 December	**2016** **£m**	2015 £m
Fair value of plan assets	**7,938**	6,642
Present value of defined benefit obligation	**(9,075)**	(6,761)
Net liability recognised in the Group Balance Sheet	**(1,137)**	(119)
Pension asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**–**	91
Retirement benefit liabilities	**(1,137)**	(210)
Net pension liability	**(1,137)**	(119)

Notes to the Financial Statements

14. POST RETIREMENT BENEFITS

(e) Movement in the year

	2016 Pension liabilities £m	2016 Pension assets £m	2015 Pension liabilities £m	2015 Pension assets £m
1 January	**(6,761)**	**6,642**	(6,382)	6,444
Items included in the Group Income Statement:				
Current service cost	**(118)**	**–**	(129)	–
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**(23)**	**–**	(24)	–
Total current service cost	**(141)**	**–**	(153)	–
Past service credit	**80**	**–**	38	–
Interest (expense)/income	**(265)**	**258**	(248)	253
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**994**	–	(126)
Actuarial gain/(loss) from changes to demographic assumptions	**93**	**–**	(24)	–
Actuarial (loss)/gain from changes in financial assumptions	**(2,361)**	**–**	5	–
Actuarial gain/(loss) from experience adjustments	**100**	**–**	(176)	–
Exchange adjustments	**(13)**	**6**	8	(5)
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**225**	–	224
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**–**	**23**	–	24
Other movements:				
Plan participants' contributions	**(1)**	**1**	(1)	1
Benefits paid from schemes	**202**	**(202)**	170	(170)
Acquisition/disposal of businesses	**–**	**–**	3	(3)
Settlement	**9**	**(9)**	–	–
Transfers from provisions for other liabilities and charges	**(17)**	**–**	(1)	–
31 December	**(9,075)**	**7,938**	(6,761)	6,642

(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.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £44 million (2015: £43 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £13 million (2015: £13 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market values of plan assets were:

31 December	2016 Quoted £m	2016 Unquoted £m	2016 Total £m	2015 Quoted £m	2015 Unquoted £m	2015 Total £m
Equities	**1,991**	**307**	**2,298**	1,884	219	2,103
Diversified asset funds	**50**	**–**	**50**	47	–	47
Corporate bonds	**1,294**	**–**	**1,294**	1,732	–	1,732
High-yield debt	**309**	**1,296**	**1,605**	167	781	948
Liability matching assets	**1,241**	**844**	**2,085**	874	556	1,430
Property	**–**	**323**	**323**	–	318	318
Cash pending investment	**283**	**–**	**283**	64	–	64
	5,168	**2,770**	**7,938**	4,768	1,874	6,642

Included within equities are £1 million (2015: £1 million) of ordinary shares of Centrica plc via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £1 million (2015: £2 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 14(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 £85 million (2015: £76 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, £62 million (2015: £50 million) relate to this scheme.

14. POST RETIREMENT BENEFITS

(g) Pension scheme contributions

The continued fall in gilt rates and the low yield environment has impacted the discount rate on which our pension deficit is calculated, giving rise to a higher liability, as well as increasing the cost of providing new pension benefits. The Group has taken steps to mitigate, as far as possible, these increased costs to help remain competitive and support the Group's growth.

After a period of member consultation, the following amendments to the Registered Pension Schemes were approved: an increase in member contributions, a change to the inflationary increases for future pension build up in retirement to the lower of CPI and 2.5% and a reduced pensionable salary cap for the CPP and CPS career average schemes only. These changes will partially mitigate the impact of the low yield environment.

As a result of the implementation of a salary cap on pensionable pay for the CPP scheme, a past service credit of £80 million (net of £2 million costs of implementing the changes) has been recognised as an exceptional item in the period as described in note 6.

During the year, 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 is committing additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, has 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 will be provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, paying £77 million in 2016, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, will 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, has also been agreed in support of these arrangements.

Although the Group has established a new funding arrangement in the year 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 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 2016 with further annual contributions of £1 million to be paid 2017, 2018 and 2019.

The Group estimates that it will pay £110 million of ordinary employer contributions during 2017 at an average rate of 24% of pensionable pay, together with £37 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.

15. ACQUISITIONS AND DISPOSALS

(a) 2016 business combinations

This section details business combinations made by the Group. During the year, the significant acquisitions undertaken by the Group were those of ENER-G Cogen International, a combined heat and power (CHP) business and Neas Energy, one of Europe's leading providers of energy management and optimisation services for decentralised third-party owned assets.

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.

ENER-G Cogen

On 16 May 2016, the Group acquired 100% of ENER-G Cogen's CHP business for cash consideration of £149 million. The company, which operates across Europe and North America, supplies, installs and maintains CHP solutions for industrial and commercial customers. This business is reported as part of the Distributed Energy & Power (DE&P) segment. The business is a strong fit with the DE&P business model and provides immediate capability to the division, where previously the Group had been reliant on subcontracting to third parties.

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 international growth opportunities in the distributed energy sector. In addition, assumptions were made regarding margins on the existing order book and future margins on renewed contracts which are both captured in the customer intangible asset. £85 million of goodwill was recognised on acquisition, none of which is tax deductible.

On acquisition, when the ENER-G business was first consolidated into the Group under IFRS, certain of the acquiree's infrastructure contracts have been treated as finance leases. The acquired business previously reported under UK GAAP, under which these contracts were not considered to be leases. This represents the principal change to the accounting policies of the acquiree for the purposes of consolidation.

Neas Energy

On 5 October 2016, the Group acquired 100% of Neas Energy's business for cash consideration of £210 million. The business provides energy management services and short-term optimisation trading services for decentralised third-party owned assets across Europe (including windfarms, solar plants and CHP plants). It is also engaged in short-term trading in power, gas and environmental certificates across 18 countries. This business is reported as part of the Energy Marketing & Trading (EM&T) segment.

For this acquisition, the majority of the value is recognised as goodwill. This reflects the assembled workforce, geographical presence and international growth opportunities brought to the EM&T segment by the acquisition. £151 million of goodwill was recognised on acquisition, none of which is tax deductible.

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15. ACQUISITIONS AND DISPOSALS

Flowgem

On 25 August 2016, the Group acquired 100% of Flowgem Limited for cash consideration of £13 million and contingent consideration with a fair value of £5 million. This UK-based business has developed an early stage technology to remotely detect water leaks, which enhances the Group's connectivity offering in the UK and North America, adding new capabilities to the Hive product portfolio and complementing the Group's home services offering. This business will be reported as part of the Connected Home segment. £13 million of goodwill was recognised on acquisition, none of which is tax deductible.

Other acquisitions in the period were immaterial and resulted in no goodwill being recognised.

Provisional fair value of the identifiable acquired assets and liabilities

	ENER-G Cogen (i) £m	Neas Energy £m	Flowgem £m	**Total £m**
Balance Sheet items				
Intangible assets	30	45	5	**80**
Property, plant and equipment	28	1	–	**29**
Other non-current assets	15	1	–	**16**
Current assets (including £37 million of cash and cash equivalents)	43	168	1	**212**
Current liabilities	(35)	(149)	(1)	**(185)**
Non-current liabilities	(17)	(7)	–	**(24)**
Net identifiable assets	64	59	5	**128**
Goodwill	85	151	13	**249**
Net assets acquired	149	210	18	**377**
Consideration comprises:				
Cash consideration	149	210	13	**372**
Contingent consideration (ii)	–	–	5	**5**
Total consideration	149	210	18	**377**
Income Statement items				
Revenue recognised since the acquisition date in the Group Income Statement (iii)	69	714	–	**783**
Profit/(loss) since the acquisition date in the Group Income Statement (iii)	2	13	(1)	**14**

(i) Subsequent to the provisional fair values reported in the 2016 condensed interim Financial Statements, the fair values of ENER-G's assets and liabilities have been updated in accordance with the provisions of IFRS 3. In addition to other immaterial adjustments, a reclassification of £10 million between finance lease receivables and deferred revenue was made to reflect a revised allocation of future cash receipts between finance lease receivables and associated service contracts. The net impact of all opening balance sheet adjustments on goodwill is a £1 million reduction.

(ii) Contingent consideration is stated at fair value at the reporting date and is classified as other payables (Level 3 in terms of fair value hierarchy). Fair value is based on a set of key assumptions which take into consideration the probability of meeting sale volumes targets between 2017 and 2020. Future developments may require further revisions to the estimates. The maximum consideration to be paid to the vendor amounts to £17 million.

(iii) Revenue and profits/losses from business performance between the acquisition date and the balance sheet date, exclude exceptional items and certain re-measurements.

Acquisition-related costs have been charged to 'operating costs before exceptional items' in the Group Income Statement for an aggregated amount of £4 million.

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 £28,474 million (compared to reported revenue of £27,102 million) and profit after taxation before exceptional items and certain re-measurements of £886 million (compared to reported profit after taxation of £885 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) 2015 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 2015. Goodwill in respect of these acquisitions increased 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.

On 30 November 2016, the Group agreed to sell its entire portfolio of gas assets in Trinidad and Tobago to Shell Exploration and Production for initial consideration of $30 million (£24 million). The assets to be disposed of consist of a 17.3% interest in the producing NCMA-1 block and 80% and 90% operated interests respectively in the undeveloped blocks NCMA-4 and Block 22. In addition to the initial consideration, the Group will receive further consideration subject to Block 22 and NCMA-4 reaching agreed milestones. The transaction is subject to government and partners' approval and is expected to close in the first half of 2017.

15. ACQUISITIONS AND DISPOSALS

As detailed in note 6, prior to classification of these assets as held for sale, previously recognised impairments were reversed, giving rise to an exceptional pre-tax income statement credit of £56 million (£45 million post-tax).

These interests are currently shown in the Exploration & Production segment.

On 13 January 2017, as a consequence of the Group's strategy to reduce its exposure on wind power generation assets, the Group agreed to sell its remaining 50% interest in Lincs Wind Farm Limited ('Lincs') for net proceeds of £224 million, of which £113 million relates to a shareholder loan. The counterparties to this transaction are UK Green Investment Bank plc and Green Investment Bank Offshore Wind Fund. The transaction completed on 17 February 2017. During the course of a 12-month transition period post-completion, Centrica will provide operations maintenance support to the buyers. The Group's interest in Lincs is currently shown in the Central Power Generation segment.

	Trinidad and Tobago gas assets £m	Lincs Wind Farm £m	**Total £m**
Non-current assets (other than interests in joint ventures)	66	117	**183**
Interests in joint ventures	–	55	**55**
Assets of disposal groups classified as held for sale	66	172	**238**
Non-current liabilities	(42)	–	**(42)**
Liabilities of disposal groups classified as held for sale	(42)	–	**(42)**
Net assets of disposal groups classified as held for sale	24	172	**196**

None of the above disposal groups are material enough to be shown as discontinued operations on the face of Group Income Statement as they do not represent a separate major line of business or geographical area of operations.

(d) Disposals

During the year, the Group sold its interest in the GLID wind farms joint venture, the Skene and Buckland fields and the Airtron Canada and Airco Mechanical businesses. This note details the consideration received, the assets and liabilities disposed of and the profit before and after tax arising on disposal.

Date of disposal	7 March 2016	18 May 2016	9 October 2016/ 14 November 2016
Business/assets disposed of by the Group	GLID wind farms joint venture	Skene and Buckland gas and oil assets (i)	Airco Mechanical/ Airtron Canada
Sold to	Consortium comprised of UK Green Investment Bank Offshore Wind Fund and BlackRock funds £m	Apache Beryl Limited and Enterprise Oil Limited £m	Management buyout/ Ainsworth Inc. £m
Goodwill	–	–	10
Property, plant and equipment	–	3	2
Interests in joint ventures	16	–	–
Other assets	–	2	31
Current liabilities	–	–	(10)
Non-current provisions for other liabilities and charges	–	(45)	–
Net assets/(liabilities) disposed of	16	(40)	33
Consideration received	94	10	8
Deferred consideration	–	–	3
Total consideration	94	10	11
Profit/(loss) on disposal before tax and release of cash flow hedge reserve	78	50	(22)
Release of share of joint venture cash flow hedge reserve on disposal	(5)	–	–
Profit/(loss) on disposal before tax	73	50	(22)
Taxation	–	(21)	1
Profit/(loss) on disposal after tax	73	29	(21)

(i) Based on the final completion statement, the consideration related to this disposal was amended to £10 million compared to £11 million reported in the condensed interim Financial Statements for the period ended 30 June 2016.

On 7 March 2016, GLID wind farms were disposed of for sales proceeds of £116 million of which £22 million was in relation to outstanding interest due to the Group from GLID. A profit on disposal after tax of £73 million was recognised on the sale of the Group's interest in this joint venture, and has been recognised as an exceptional item (see note 6) since this transaction is part of Centrica's exit

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15. ACQUISITIONS AND DISPOSALS

from the wind business. Centrica will continue to purchase 100% of the power and 50% of the ROCs from the three GLID wind farms under existing power purchase agreements (PPAs) until 2024.

On 16 November 2015, a Sale and Purchase Agreement (SPA) was entered into with Apache Beryl Limited to divest the non-operated interests in Skene and Buckland for consideration of $15 million (£11 million). At 31 December 2015, this disposal group was classified as held for sale. The transaction completed with Apache Beryl Limited and Enterprise Oil Limited (a Shell related party), which exercised its pre-emption rights, on 18 May 2016. A profit on disposal after tax of £29 million was recognised as an exceptional item (see note 6).

On 9 October 2016, the Group announced a disposal through a management buyout of its NA Home investment in Airco Mechanical Ltd. for consideration of $10 million (£8 million), out of which $3 million (£2 million) is deferred for payment on 1 December 2017. A loss on disposal after tax of $11 million (£9 million) was recognised as an exceptional item (see note 6).

On 14 November 2016, the Group announced a disposal of NA Home's interest in Airtron Canada (Direct Energy Business Services Limited), for consideration of C$5 million (£3 million). Of the consideration, C$4 million was received upon completion of the transaction and C$1 million is deferred for payment 18 months post completion. A loss on disposal after tax of C$19 million (£12 million) was recognised as an exceptional item (see note 6). Centrica will support the buyer for a period of 12 months post completion, under the terms of a transition service agreement.

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 geographical area of operations.

16. 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.

On 25 March 2013, the Group 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 up to £3.8 billion (included in 'LNG capacity' below) between 2018 and 2038. The Group may also make up to £8.5 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.

16. COMMITMENTS AND CONTINGENCIES

31 December	2016 £m	2015 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Norwegian Maria gas and oil field	**61**	110
Development of Norwegian Oda gas and oil field	**79**	–
Development of other Norwegian gas and oil assets	**–**	52
Development of Cygnus gas field	**11**	101
Other capital expenditure	**153**	79
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (i)	**700**	977
Renewable obligation certificates to be purchased from other parties	**3,405**	2,462
Other intangible assets	**299**	272
Other commitments:		
Commodity purchase contracts	**47,735**	43,547
LNG capacity	**4,469**	4,473
Transportation capacity	**983**	932
Outsourcing of services	**111**	146
Power station tolling fees	**196**	93
Smart meters	**149**	169
Power station operating and maintenance	**68**	155
Heat rate call options	**10**	77
Other long-term commitments	**269**	289
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	**381**	770

(i) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy under long-term off-take agreements (up to 15 years). The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.

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	2016 £billion	Commodity purchase contract commitments 2015 £billion	2016 £m	Total minimum lease payments under non-cancellable operating leases 2015 £m
<1 year	**11.4**	9.1	**91**	121
1–2 years	**6.6**	5.0	**78**	82
2–3 years	**4.6**	3.4	**49**	73
3–4 years	**4.2**	2.9	**38**	66
4–5 years	**3.8**	3.6	**31**	58
>5 years	**17.1**	19.5	**94**	370
	47.7	43.5	**381**	770

Operating lease payments recognised as an expense in the year were as follows:

Year ended 31 December	2016 £m	2015 £m
Minimum lease payments (net of sub-lease receipts)	**100**	125
Contingent rents – renewables (i)	**68**	75

(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 (2015: 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

16. 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 guarantees and indemnities in respect of decommissioning costs; the most significant indemnities relate to the decommissioning costs associated with the Morecambe, Statfjord and Kvitebjørn fields. These indemnities are to the previous owners of these fields. Under the licence conditions of the fields, the previous owners will have exposure to the decommissioning costs should these liabilities not be fully discharged by the Group.

With regard to Morecambe the security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked.

Following legislation having been executed, the UK Government has now signed contracts (Decommissioning Relief Deeds – DRDs) with industry, providing certainty on decommissioning tax relief through confirmation of allowance against previous taxable profits. These deeds permit industry to move to post-tax Decommissioning Security Agreements (DSAs), cutting the cost of these and freeing up capital for investment. Centrica has a signed DRD and discussions are ongoing with the relevant counterparty to move to a post-tax DSA for Morecambe.

Security for Statfjord and Kvitebjørn is slightly different in this respect as it was provided to the previous owners as part of the acquisition of these fields.

(c) Contingent liabilities

The Group has no material contingent liabilities.

17. 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 2016 and the date of this report.

Disposal

On 13 January 2017, Centrica announced the sale of its 50% share in Lincs Wind Farm Limited to the Green Investment Bank for net proceeds of £224 million, of which £113 million relates to a shareholder loan, which exceeds the carrying value of the disposed assets.

The transaction completed on 17 February 2017, but the Group will continue to operate Lincs for a 12-month period with a continued focus on safety and power availability.

Centrica Storage

On 16 February 2017, Centrica Storage announced that following further test results at the Rough storage field and review with technical advisors, injection services cannot currently be offered for the 2017/18 storage year.

Centrica Storage will continue and complete the testing programme and will then evaluate the full results from all 24 wells. This analysis is expected to be completed by 30 June 2017 and a further update to the market will be provided at that time. The return to injection operations in 2017 remains subject to successfully completing testing and evaluation of all wells and confirmation that Rough can be safely returned to service.

Dividends

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £461 million) for the year ended 31 December 2016. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 8 May 2017 and, subject to approval, will be paid on 29 June 2017 to those shareholders registered on 12 May 2017.

18. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six month period ended 31 December 2016 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and changes in retail tariffs.

Customer demand for gas in the UK, Republic of Ireland and North America is driven primarily by heating load and is generally higher in the winter than in the summer, and higher from January to June than from July to December. Customer demand for electricity in the UK and the Republic of Ireland generally follows a similar pattern to gas, but is more stable. Customer demand for electricity in North America is also more stable than gas but is driven by heating load in the winter and cooling load in the summer. Generally demand for electricity in North America is higher in the winter and summer than it is in the spring and autumn, and higher from July to December than it is from January to June.

Customer demand for home services in the UK is generally higher in the winter than it is in the summer, and higher in the earlier part of the winter as that is typically when heating systems tend to break down most, so that customer demand from July to December is higher than from January to June. Customer demand for home services in North America follows a similar pattern, but is also higher in the summer as a result of servicing of cooling systems.

Gas production volumes in the UK are generally higher in the winter when gas prices are higher. Gas production volumes are generally higher from January to June than they are from July to December as outages are generally planned for the summer months when gas demand and prices are at their lowest. Gas production volumes in North America are generally not seasonal.

Power generation volumes are dependent on spark spread prices, which is the difference between the price of electricity and the price of gas multiplied by a conversion rate and, as a result, are not as seasonal as gas production volumes in the UK, as wholesale prices for both gas and electricity are generally higher in the winter than they are in the summer.

The impact of seasonality on customer demand and wholesale prices has a direct effect on the Group's financial performance and cash flows.

Notes to the Financial Statements (Unaudited)

19. GROUP INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER

Six months ended 31 December	Notes	2016 Business performance £m	2016 Exceptional items and certain re-measurements £m	2016 Results for the period £m	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the period £m
Group revenue	21(a)	**13,722**	**–**	**13,722**	12,520	–	12,520
Cost of sales before exceptional items and certain re-measurements		**(11,610)**	**–**	**(11,610)**	(10,660)	–	(10,660)
Re-measurement of energy contracts	22(b)	**–**	**89**	**89**	–	(297)	(297)
Cost of sales		**(11,610)**	**89**	**(11,521)**	(10,660)	(297)	(10,957)
Gross profit		**2,112**	**89**	**2,201**	1,860	(297)	1,563
Operating costs before exceptional items		**(1,540)**	**–**	**(1,540)**	(1,514)	–	(1,514)
Exceptional items	22(a)	**–**	**16**	**16**	–	(2,358)	(2,358)
Operating costs		**(1,540)**	**16**	**(1,524)**	(1,514)	(2,358)	(3,872)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	22(b)	**79**	**(36)**	**43**	127	(18)	109
Group operating profit/(loss)	21(b)	**651**	**69**	**720**	473	(2,673)	(2,200)
Financing costs		**(174)**	**–**	**(174)**	(168)	–	(168)
Investment income		**15**	**–**	**15**	24	–	24
Net finance cost		**(159)**	**–**	**(159)**	(144)	–	(144)
Profit/(loss) before taxation		**492**	**69**	**561**	329	(2,673)	(2,344)
Taxation on profit/(loss)		**(102)**	**67**	**(35)**	(65)	493	428
Profit/(loss) for the period		**390**	**136**	**526**	264	(2,180)	(1,916)
Attributable to:							
Owners of the parent		**388**	**136**	**524**	276	(2,073)	(1,797)
Non-controlling interests		**2**	**–**	**2**	(12)	(107)	(119)

Earnings per ordinary share	Notes	2016 Pence	2015 Pence
Basic	23	**9.4**	(35.6)
Diluted	23	**9.3**	(35.6)

20. GROUP CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER

Six months ended 31 December	2016 £m	2015 £m
Group operating profit/(loss) including share of results of joint ventures and associates	720	(2,200)
Less share of profit of joint ventures and associates, net of interest and taxation	(43)	(109)
Group operating profit/(loss) before share of results of joint ventures and associates	677	(2,309)
Add back/(deduct):		
Depreciation, amortisation, write-down and impairments	380	2,890
Loss on disposals	7	1
Increase in provisions	8	63
Defined benefit pension service cost and contributions	(100)	(109)
Employee share scheme costs	20	20
Unrealised (gains)/losses arising from re-measurement of energy contracts	(19)	266
Operating cash flows before movements in working capital	973	822
Increase in inventories	(64)	(55)
Increase in trade and other receivables	(515)	(16)
Increase in trade and other payables	799	350
Operating cash flows before payments relating to taxes, interest and exceptional charges	1,193	1,101
Taxes paid	(65)	(205)
Payments relating to exceptional charges	(100)	(39)
Net cash flow from operating activities	1,028	857
Purchase of businesses, net of cash acquired	(203)	(41)
Sale of businesses	11	8
Purchase of property, plant and equipment and intangible assets	(405)	(446)
Sale of property, plant and equipment and intangible assets	9	7
Investments in joint ventures and associates	(4)	(1)
Dividends received from joint ventures and associates	68	115
Repayments of loans to, and disposal of investments in, joint ventures and associates	(3)	1
Interest received	35	21
(Purchase)/sale of securities	(3)	35
Net cash flow from investing activities	(495)	(301)
Issue and surrender of ordinary share capital including issue for share awards	–	9
Payments for own shares	(10)	(7)
Distribution to non-controlling interests	(10)	–
Financing interest paid	(93)	(150)
Repayment of borrowings	(487)	(459)
Equity dividends paid	(167)	(149)
Net cash flow from financing activities	(767)	(756)
Net decrease in cash and cash equivalents	(234)	(200)
Cash and cash equivalents including overdrafts at beginning of period	2,166	1,063
Effect of foreign exchange rate changes	28	(3)
Cash and cash equivalents including overdrafts at 31 December	1,960	860
Included in the following line of the Group Balance Sheet:		
Cash and cash equivalents	2,036	1,158
Overdrafts included within current bank overdrafts, loans and other borrowings	(76)	(298)

Notes to the Financial Statements (Unaudited)

21. SEGMENTAL ANALYSIS FOR THE SIX MONTHS ENDED 31 DECEMBER

(a) Revenue

Six months ended 31 December	Gross segment revenue 2016 £m	Less inter-segment revenue 2016 £m	Group revenue 2016 £m	Gross segment revenue (restated) (i) 2015 £m	Less inter-segment revenue (restated) (i) 2015 £m	Group revenue (restated) (i) 2015 £m
Energy Supply & Services – UK & Ireland						
UK Home	**4,186**	**(4)**	**4,182**	4,351	–	4,351
UK Business	**937**	**(1)**	**936**	1,068	(1)	1,067
Ireland	**379**	**–**	**379**	333	–	333
	5,502	**(5)**	**5,497**	5,752	(1)	5,751
Energy Supply & Services – North America						
NA Home	**1,460**	**–**	**1,460**	1,228	–	1,228
NA Business	**4,094**	**–**	**4,094**	3,457	–	3,457
	5,554	**–**	**5,554**	4,685	–	4,685
Connected Home	**21**	**(6)**	**15**	11	(2)	9
Distributed Energy & Power	**94**	**(1)**	**93**	51	(1)	50
Energy Marketing & Trading	**1,947**	**(64)**	**1,883**	1,327	(40)	1,287
Exploration & Production	**853**	**(422)**	**431**	980	(538)	442
Central Power Generation	**355**	**(116)**	**239**	328	(96)	232
Centrica Storage	**11**	**(1)**	**10**	85	(21)	64
	14,337	**(615)**	**13,722**	13,219	(699)	12,520

(i) Segmental revenue has been restated in the new reporting segments. See note 1 for further information.

21. SEGMENTAL ANALYSIS FOR THE SIX MONTHS ENDED 31 DECEMBER

(b) Operating profit before and after tax

Six months ended 31 December	Adjusted operating profit/(loss) 2016 £m	Adjusted operating profit/(loss) 2015 (restated) (i) £m	Adjusted operating profit/(loss) after taxation 2016 £m	Adjusted operating profit/(loss) after taxation 2015 (restated) (i) £m
Energy Supply & Services – UK & Ireland				
UK Home	**175**	202	**166**	164
UK Business	**19**	(25)	**17**	(21)
Ireland	**22**	7	**19**	4
	216	184	**202**	147
Energy Supply & Services – North America				
NA Home	**60**	27	**41**	10
NA Business	**159**	107	**107**	64
	219	134	**148**	74
Connected Home	**(27)**	(21)	**(24)**	(17)
Distributed Energy & Power	**(15)**	(12)	**(12)**	–
Energy Marketing & Trading	**175**	121	**134**	99
Exploration & Production	**99**	(11)	**29**	(25)
Central Power Generation	**51**	70	**46**	51
Centrica Storage	**(56)**	24	**(50)**	15
	662	489	**473**	344
Share of joint ventures'/associates' interest and taxation	**(11)**	(16)		
Operating profit before exceptional items and certain re-measurements	**651**	473		
Exceptional items (note 22)	**16**	(2,358)		
Certain re-measurements included within gross profit (note 22)	**89**	(297)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 22)	**(36)**	(18)		
Operating profit/(loss) after exceptional items and certain re-measurements	**720**	(2,200)		

Six months ended 31 December	2016 £m	2015 £m
Adjusted operating profit after taxation (ii)	**473**	344
Impact of changes to UK corporation tax rates (iii)	**30**	46
Corporate and other taxation, and interest (net of taxation) (iv)	**(113)**	(126)
Business performance profit for the period	**390**	264
Exceptional items and certain re-measurements (net of taxation) (note 22)	**136**	(2,180)
Statutory profit/(loss) for the period	**526**	(1,916)

(i) Adjusted operating profit for 2015 has been restated in the new reporting segments. See note 1 for further details.
(ii) Segment operating profit after taxation includes a profit of £4 million (2015: loss of £11 million) attributable to non-controlling interests.
(iii) Includes £9 million (2015: £19 million) relating to equity accounted interests.
(iv) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements (Unaudited)

22. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER

(a) Exceptional items

Six months ended 31 December	2016 £m	2015 £m
Net release of/(provision for) onerous power procurement contracts	17	(90)
Restructuring costs	(139)	–
Net loss on disposal of businesses and assets	(23)	–
Write-back/(impairment) of exploration and production assets	135	(1,865)
Write-back/(impairment) of combined cycle gas turbine (CCGT) power stations	26	(31)
Impairment of Nuclear investment	–	(372)
Exceptional items included within Group operating profit/(loss)	**16**	(2,358)
Taxation on exceptional items	–	477
Effect of change in upstream UK tax rates	74	–
Impairment of exploration and production deferred tax assets	–	(81)
Net exceptional items after taxation	**90**	(1,962)

(b) Certain re-measurements

Six months ended 31 December	2016 £m	2015 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	220	344
Net losses arising on market price movements and new contracts	(131)	(641)
Net re-measurements included within gross profit	**89**	(297)
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(36)	(18)
Net re-measurements included within Group operating profit/(loss)	**53**	(315)
Taxation on certain re-measurements	(7)	97
Net re-measurements after taxation	**46**	(218)

23. EARNINGS PER ORDINARY SHARE FOR THE SIX MONTHS ENDED 31 DECEMBER

Six months ended 31 December	2016 £m	2016 Pence per ordinary share	2015 £m	2015 Pence per ordinary share
Profit/(loss) – basic	524	9.4	(1,797)	(35.6)
Net exceptional items after taxation (note 22) (i)	(90)	(1.6)	1,855	36.8
Certain re-measurement (gains)/losses after taxation (note 22)	(46)	(0.8)	218	4.3
Earnings – adjusted basic	388	7.0	276	5.5
Profit/(loss) – diluted (ii)	524	9.3	(1,797)	(35.6)
Earnings – adjusted diluted	388	6.9	276	5.4

(i) Net exceptional items after taxation of £90 million gain (2015: £1,962 million loss) are reduced by nil (2015: £107 million) 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.
(ii) 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. Therefore, these shares are excluded from the calculation of basic diluted EPS in 2015.

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 DeGoyler and MacNaughton for the Group's global reserves. From 2017 onwards, annual reserves assessments will be carried out by Gaffney, Cline and Associates. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe, Canada and Trinidad and Tobago.

The principal fields in Europe are Kvitebjørn, Statfjord, Cygnus, Maria, South and North Morecambe, Rhyl, Oda (formerly Butch), Chiswick and Valemon. The principal field in Trinidad and Tobago is NCMA-1. The principal field in Centrica Storage is the Rough field. The European and Trinidad and Tobago 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.

The principal fields in Canada are Panther, Stolberg, Alderson, Wildcat Hills, Turner, Hanlan, Laprise, Glacier, Medicine Hat 1, Carrot Creek and Channel Lake. The Canadian field reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Canada (i)	Trinidad and Tobago (ii)	Exploration & Production	Centrica Storage	**Total**
1 January 2016	1,422	887	69	**2,378**	176	**2,554**
Revisions of previous estimates (iii)	(10)	(4)	4	**(10)**	–	**(10)**
Acquisitions/(disposals) of reserves in place (iv)	(6)	4	–	**(2)**	–	**(2)**
Production (v)	(181)	(66)	(21)	**(268)**	(9)	**(277)**
31 December 2016	**1,225**	**821**	**52**	**2,098**	**167**	**2,265**

Estimated net 2P reserves of liquids (million barrels)	Europe	Canada (i)	Trinidad and Tobago (ii)	Exploration & Production	Centrica Storage	**Total**
1 January 2016	115	17	–	**132**	–	**132**
Revisions of previous estimates (iii)	7	2	–	**9**	–	**9**
Production (v)	(16)	(1)	–	**(17)**	–	**(17)**
31 December 2016	**106**	**18**	**–**	**124**	**–**	**124**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Canada (i)	Trinidad and Tobago (ii)	Exploration & Production	Centrica Storage	**Total**
31 December 2016 (vi)	310	155	9	**474**	28	**502**

(i) The Canada reserves represent the Group's 60% interest in the natural gas and liquid assets owned by the CQ Energy Canada Partnership.
(ii) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels). The Group's entire portfolio of Trinidad and Tobago assets are a disposal group held for sale. See note 15(c).
(iii) Revision of previous estimates including those associated with North and South Morecambe, York, Grove, Eris, Statfjord, Kvitebjørn and Valemon areas in Europe.
(iv) Reflects the divestment of Skene and Buckland in Europe and the disposal of interests in the Peace River Arch area, offset by the acquisition of interests in the Hanlan Robb area in Canada.
(v) Represents total sales volumes of gas and oil produced from the Group's reserves.
(vi) Includes the total of estimated gas and liquids reserves at 31 December 2016 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Ofgem Consolidated Segmental Statement

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

The following is an extract of the audited CSS and is prepared in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences. This extract should be read in conjunction with the full CSS which includes the Statement, the audit opinion and the basis of preparation. These are available on www.centrica.com/prelims2016.

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Year ended 31 December 2016

		Electricity Generation			Aggregate	Electricity Supply		Gas Supply		Aggregate
	Unit	Nuclear (i)	Thermal (i)	Renewables	Generation Business	Domestic	Non-Domestic	Domestic	Non-Domestic	Supply Business
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**
Sales of electricity & gas	£m	570.1	507.3	18.2	**1,095.6**	3,127.7	1,459.1	4,420.9	538.8	**9,546.5**
Other revenue	£m	6.0	24.7	54.0	**84.7**	81.0	–	77.6	–	**158.6**
Total operating costs	**£m**	**(326.9)**	**(557.5)**	**(35.5)**	**(919.9)**	**(3,280.6)**	**(1,448.3)**	**(3,751.6)**	**(486.6)**	**(8,967.1)**
Direct fuel costs	£m	(97.1)	(326.6)	–	**(423.7)**	(1,206.3)	(611.0)	(1,733.7)	(271.0)	**(3,822.0)**
Direct costs	£m	(209.2)	(180.1)	(18.8)	**(408.1)**	(1,510.6)	(655.1)	(1,244.4)	(125.7)	**(3,535.8)**
Network costs	£m	(42.1)	(41.8)	(10.2)	**(94.1)**	(952.4)	(371.4)	(1,103.4)	(108.0)	**(2,535.2)**
Environmental and social obligation costs	£m	–	(90.8)	–	**(90.8)**	(508.0)	(262.5)	(94.2)	–	**(864.7)**
Other direct costs	£m	(167.1)	(47.5)	(8.6)	**(223.2)**	(50.2)	(21.2)	(46.8)	(17.7)	**(135.9)**
Indirect costs	£m	(20.6)	(50.8)	(16.7)	**(88.1)**	(563.7)	(182.2)	(773.5)	(89.9)	**(1,609.3)**
WACOF/E/G	**£/MWh, P/th**	**(7.5)**	**(41.3)**	**–**	**N/A**	**(54.6)**	**(48.5)**	**(48.9)**	**(50.8)**	**N/A**
EBITDA	**£m**	**249.2**	**(25.5)**	**36.7**	**260.4**	**(71.9)**	**10.8**	**746.9**	**52.2**	**738.0**
DA	£m	(137.0)	(25.1)	(26.5)	**(188.6)**	(54.0)	(8.9)	(68.0)	(4.3)	**(135.2)**
EBIT	**£m**	**112.2**	**(50.6)**	**10.2**	**71.8**	**(125.9)**	**1.9**	**678.9**	**47.9**	**602.8**
Volume	TWh, MThms	13.0	10.1	0.5	N/A	22.1	12.6	3,548.7	533.2	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	N/A	6,341.9	496.3	7,992.3	237.4	N/A

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
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%**

2015 Summarised CSS

Year ended 31 December 2015

		Electricity Generation			Aggregate	Electricity Supply		Gas Supply		Aggregate
	Unit	Nuclear (i)	Thermal (i)	Renewables	Generation Business	Domestic (ii)	Non-Domestic	Domestic (ii)	Non-Domestic	Supply Business
Total revenue	£m	596.3	443.4	124.0	1,163.7	3,306.4	1,682.5	4,935.5	677.9	10,602.3
EBIT	£m	172.9	(117.5)	29.5	84.9	8.3	(48.8)	614.6	32.8	606.9

		Electricity Supply Domestic (ii)	Electricity Supply Non-Domestic	Gas Supply Domestic (ii)	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin	0.3%	(2.9%)	12.5%	4.8%	5.7%
Supply PAT	£m	6.7	(38.9)	493.9	26.1	487.8
Supply PAT	margin	0.2%	(2.3%)	10.0%	3.9%	4.6%

(i) The Nuclear and Thermal segments represent conventional electricity generation.
(ii) 2015 comparatives for Domestic Supply have been restated to remove the performance of Connected Home segment which is now deemed to be a separate business unit and unrelated to the licensed Supply business. 2015 comparatives have also been restated between Domestic Electricity Supply and Domestic Gas Supply to reallocate a portion of bad debt charge (£7.5 million) to the correct fuel. For Domestic Electricity Supply, Total Revenue has been reduced by £3.0 million, EBIT increased by £13.7 million and PAT increased by £11.2 million. For Domestic Gas Supply, Total Revenue has been reduced by £4.1 million, EBIT increased by £34.8 million and PAT increased by £28.4 million.

Additional Information – Explanatory Notes (Unaudited)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Centrica's 2016 Preliminary Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

Adjusted operating profit, adjusted earnings and adjusted operating cash flow have been defined and reconciled separately in notes 2, 5 and 10 to the Financial Statements where further explanation of the measures is given. Additional performance measures are used within this announcement to help explain the performance of the Group and these are defined and reconciled below.

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.

Year ended 31 December		2016 £m	2015 £m	Change
Adjusted operating cash flow	5(f)	**2,686**	2,253	
Commodity price – E&P and Nuclear (i)		**–**	(397)	
Foreign exchange movements (ii)		**–**	77	
UK Business working capital impact		**(357)**	102	
Underlying adjusted operating cash flow		**2,329**	2,035	14%

(i) The commodity price adjustment has been calculated by applying the average achieved price in 2016 to production and generation volumes for 2015 net of taxation.
(ii) The foreign exchange movement has been calculated by applying the average 2016 rate to the 2015 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 5(f). It has been adjusted for the impacts of commodity price movements on 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.

Group net investment

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

Year ended 31 December		2016 £m	2015 £m	Change
Capital expenditure (including small acquisitions) (i)		**842**	1,049	(20%)
Material acquisitions (>£100 million) (ii)		**322**	–	nm
Net disposals (iii)		**(125)**	(194)	(36%)
Group net investment		**1,039**	855	22%
Dividends received from joint ventures and associates	C/F	**(117)**	(180)	
Interest received	C/F	**(91)**	(38)	
Sale of securities	C/F	**(28)**	(26)	
Net cash flow from investing activities	C/F	**803**	611	

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).
(ii) Material acquisitions is the net cash flow on acquisitions of businesses over £100 million. See table (b).
(iii) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of investments in joint ventures and associates. See table (c).

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

(a) Capital expenditure (including small acquisitions)

Year ended 31 December		2016 £m	2015 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	**829**	970	
Purchase of businesses, net of cash acquired	C/F	**335**	79	
Less: material acquisitions (>£100 million)		**(322)**	–	
Capital expenditure (including small acquisitions)		**842**	1,049	(20%)

Additional Information – Explanatory Notes (Unaudited)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

(b) Material acquisitions (>£100 million)

Year ended 31 December		2016 £m	2015 £m	Change
Purchase of businesses, net of cash acquired	C/F	**335**	79	
Less: non-material acquisitions (<£100 million) [(i)]		**(13)**	(79)	
Material acquisitions (>£100 million) [(ii)]		**322**	–	nm

(i) Cash consideration in 2016 relates to Flowgem (2015: AlertMe and Panoramic Power).
(ii) Cash consideration for ENER-G Cogen and Neas Energy.

(c) Net disposals

Year ended 31 December		2016 £m	2015 £m	Change
Repayments of loans to, and disposal of investments in, joint ventures and associates	C/F	**(94)**	(190)	
Sale of businesses	C/F	**(35)**	(8)	
Sale of property, plant and equipment and intangible assets	C/F	**(13)**	(9)	
Investments in joint ventures and associates	C/F	**17**	13	
Net disposals		**(125)**	(194)	(36%)

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		2016 £m	2015 £m	Change
E&P adjusted operating cash flow	5(f)	**655**	787	
Capital expenditure (including small acquisitions)		**(518)**	(715)	
Net disposals [(i)]		**29**	14	
Free cash flow		**166**	86	93%

(i) 2016 net disposals include Skene and Buckland (see note 15(d)), Trinidad and Tobago Blocks 1a and 1b and some 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 5(f), less the business's capital expenditure and net disposals as defined above. See the definition of Group net investment for further details on the definition of 'Capital expenditure (including small acquisitions)' and 'Net disposals'.

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		2016 £m	2015 £m	Change
Adjusted operating profit	5(c)	**1,515**	1,459	
Share of joint ventures'/associates' interest and taxation	12(a)	**(48)**	(61)	
Taxation on profit – business performance	I/S	**(282)**	(286)	
Exclude taxation on interest		**(120)**	(93)	
Return attributable to non-controlling interests	5(c)	**5**	27	
Return		**1,070**	1,046	
Net assets	B/S	**2,844**	1,342	
Less: non-controlling interests	B/S	**(178)**	(164)	
Less: net retirement benefit obligations	14(d)	**1,137**	119	
Less: net cash and cash equivalents, bank overdrafts, loans and other borrowings, securities and cash posted/(received) as collateral	11(b)	**3,764**	4,829	
Less: derivative financial instruments	13	**(280)**	592	
Less: deferred tax (assets)/liabilities associated with retirement benefit obligations and derivative financial instruments		**23**	(417)	
Effect of averaging and other adjustments		**(582)**	2,476	
Average capital employed		**6,728**	8,777	
ROACE		**16%**	12%	4ppt

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.

Disclosures

Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Centrica shares or other securities.

This announcement contains certain forward-looking statements 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.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation.

For further information

Centrica will hold its 2016 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 23 February 2017. There will be a live audio webcast of the presentation and slides at www.centrica.com/2016-prelim-results-webcast.

A live audio broadcast of the presentation will be available by dialling in using the following number:

+ 44 (0) 20 3059 8125

The call title is "**Centrica plc 2016 Preliminary Results**".

An archived webcast and full transcript of the presentation and the question and answer session will be available on the website on Tuesday 28 February 2017.

Enquiries

Investors and Analysts:	Martyn Espley	Investor Relations
	Telephone:	01753 494 900
	email:	ir@centrica.com
Media:	Sophie Fitton	Media Relations
	Telephone:	01784 843 000
	email:	media@centrica.com

Financial calendar

Trading Update	8 May 2017
Annual General Meeting	8 May 2017
Ex-dividend date for 2016 final dividend	11 May 2017
Record date for 2016 final dividend	12 May 2017
Final date to elect to participate in 2016 final scrip dividend programme	8 June 2017
2016 final dividend payment date	29 June 2017
2017 Interim Results announcement	1 August 2017

Registered office

Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.