Preliminary results for the year ended 31 December 2015

OVERVIEW

- **Resilient financial performance** in a challenging environment. **Adjusted earnings per share of 17.2p, down 4%.**
- **Adjusted operating cash flow up 2% to £2,253 million.**
- **9% reduction in net debt to £4,747 million.**
- Post-tax **exceptional items** of £1,846 million primarily as a result of falling commodity prices.
- **Group robust in a low commodity price environment** (flat real $35/bbl Brent oil, 35p/th UK NBP gas, £35/MWh UK power prices) with sources and uses of cash flow more than balanced over 2016-2018.
- **Confident in delivery of at least 3-5% per annum adjusted operating cash flow growth** from a 2015 baseline adjusted for the low commodity price environment[1]. 2016 adjusted operating cash flow expected to exceed £2 billion.
- Proposed 2015 final dividend of 8.43p, resulting in a **full year dividend of 12.0p** and dividend cover of 1.4 times. Delivery of progressive future dividend tied to confidence in underlying operating cash flow.
- **Strategy implementation on track** with growth focus on customer-facing activities; adjusted operating **profit from energy and services businesses up 19%** in 2015. **E&P free cash flow positive** in 2015.
- £750 million per annum by 2020 **cost efficiency programme underpinned** in our plans; **£200 million of savings expected in 2016.**

GROUP FINANCIAL SUMMARY

Year ended 31 December	**2015**	2014	Change
Revenue	**£28.0bn**	£29.4bn	(5%)
Adjusted operating profit	**£1,459m**	£1,657m	(12%)
Adjusted effective tax rate	**26%**	30%	(4ppt)
Adjusted earnings	**£863m**	£903m	(4%)
Adjusted basic earnings per share (EPS)	**17.2p**	18.0p	(4%)
Full year dividend per share	**12.0p**	13.5p	(11%)
Adjusted operating cash flow	**£2,253m**	£2,201m	2%
Return on average capital employed	**11%**	11%	0ppt
Group operating costs	**£3,039m**	£2,903m	5%
Group net investment	**£855m**	£829m	3%
Group net debt	**£4,747m**	£5,196m	(9%)
Statutory operating (loss)	**(£857m)**	(£1,137m)	nm
Statutory (loss) for the year attributable to shareholders	**(£747m)**	(£1,012m)	nm
Net exceptional items after tax included in statutory (loss)	**(£1,846m)**	(£1,161m)	nm
Basic earnings per share	**(14.9p)**	(20.2p)	nm

Adjusted operating profit, adjusted effective tax rate, adjusted earnings and adjusted basic earnings per share include fair value depreciation related to our investments in Venture and Nuclear. 2014 comparators have been restated accordingly. 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 7 to 10.

IAIN CONN, CENTRICA CHIEF EXECUTIVE

"Centrica has delivered a resilient financial performance, with solid 2015 adjusted earnings despite the challenge of falling wholesale oil and gas prices. Operating cash flow has been strong, and with capital discipline this has allowed the Group to reduce net debt. In 2016 we expect operating cash flow also to be over £2 billion.

We have a clear strategy for delivering growth and returns built around the customer and I am encouraged by the progress we have made. We remain confident that our plans and underlying performance momentum will allow us to more than balance cash flows and deliver at least 3-5% per annum underlying operating cash flow growth to 2020, even in the current environment, so underpinning a progressive dividend policy."

1. The low commodity price environment assumes flat real prices of $35/bbl Brent oil, 35p/th UK NBP gas and £35/MWh UK power.

Preliminary results for the year ended 31 December 2015 continued

GROUP KEY OPERATIONAL PERFORMANCE INDICATORS

Year ended 31 December	2015	2014	Change
Total recordable injury frequency rate (per 200,000 hours worked)	**1.10**	1.00	10%
Total customer account holdings (year end, '000)	**28,433**	29,035	(2%)
Total customer gas consumption (mmth)	**12,177**	12,354	(1%)
Total customer electricity consumption (TWh)	**151.5**	156.8	(3%)
Group direct headcount (year end)	**39,348**	37,734	4%

Group direct headcount excludes contractors, agency and outsourced staff.

IMPLEMENTING THE STRATEGY

- Conclusions of strategic review announced in July 2015, with Centrica's purpose defined as **providing energy and services to satisfy the changing needs of our customers; strategy implementation on track.**
- Execution of strategy underpinned by comprehensive implementation plans across all businesses and functions. **New organisational model, segments and business units** announced, with defined **KPIs and metrics** to measure success.
  - Group will report in line with the new reporting segments for the first time at the 2016 Interim Results.
- **Focus for growth** on distinctive **customer-facing activities** of energy supply, services, the connected home, distributed energy and power and energy marketing and trading.
  - Significant improvement in performance in North America with operating profit more than doubling compared to 2014. Growth in margins in Direct Energy Business and increased product bundling and differentiated offers in Direct Energy Residential.
  - Improved customer service and higher NPS in UK residential energy and services. Weak result from British Gas Business but operational issues now largely rectified.
  - Focus on competitive pricing – the only major UK residential energy supplier to make three reductions to household gas bills since the start of 2015, saving British Gas customers almost £100 per year on average.
  - Existing Connected Home and Distributed Energy & Power capabilities brought together under new business units, with good early progress made.
- **E&P and central power generation** portfolios being actively **refocused** in line with strategy.
  - E&P focused on creating value in current price environment through cost improvement and capital discipline.
  - Capital expenditure reduced to around £500 million in 2016; flexibility to reduce expenditure further in 2017 and 2018 if current low price environment is sustained.
  - Post-tax impairments and provisions of £1,477 million on E&P assets and £485 million on power assets, reflecting the end-year commodity price environment.
  - Announced disposal of the GLID wind farms in February 2016, in line with strategy to exit wind power generation.
- **£750 million cost efficiency programme underpinned and on track** to be completed by 2020.
  - 2,000 role reductions already announced. Reduction in direct headcount of around 3,000 roles expected in 2016.
  - £200 million of savings expected to be delivered in 2016; on track to deliver two-thirds or £500 million per annum by the end of 2018.

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Interviews with Iain Conn (Chief Executive), Jeff Bell (Chief Financial Officer), Mark Hanafin (Chief Executive, Energy Production, Trading and Distributed Energy), Mark Hodges (Chief Executive, Energy Supply & Services, UK & Ireland) and Badar Khan (Chief Executive, Energy Supply & Services, North America) are available on www.centrica.com

Chief Executive's Statement

OVERVIEW

2015 provided a very challenging environment for Centrica. Commodity prices continued to fall during the year, creating major challenges for our E&P and nuclear power businesses. However, Centrica delivered a resilient financial performance against this backdrop, with increased adjusted operating cash flow and a 9% reduction in net debt in the year. In addition, the actions we have taken since the start of 2015 on the dividend, capital expenditure and costs mean the Group is robust in this much lower oil and gas price environment, and our current projections indicate we can more than balance sources and uses of cash flow out to 2018 at flat real commodity prices of $35/bbl Brent oil, 35p/therm UK NBP gas and £35/MWh UK power.

In July, we announced the conclusions of our fundamental and wide-ranging strategic review. We concluded that Centrica's strength lies in being a customer-facing energy and services business. This is where we have distinctive positions and capabilities and where we can make the biggest difference and contribution going forward, for our customers, our employees and our shareholders.

Our purpose – to provide energy and services to satisfy the changing needs of our customers – provides a clear future direction for the Group. Everything we do will be in support of this purpose, as we position Centrica to deliver returns and growth.

We remain confident we can deliver at least 3-5% per annum operating cash flow growth at flat real commodity prices and are committed to delivering a progressive dividend in line with the sustainable operating cash flow growth of the Group. I am encouraged with the progress we have made since July, as we develop our customer-facing platforms for growth and we deliver on our major cost efficiency programme, which is now underpinned in our business plans. Implementation of the strategy is on track, and I remain excited about this next phase and continue to believe that Centrica has all the components necessary to deliver a powerful investor proposition – one of returns and growth.

2015 PERFORMANCE

Safety and compliance remain our top priority. In safety, we experienced a slight degradation in personal safety performance. We also experienced one Tier 1 process safety incident during the year and we are focused on improving our performance in this area. In regulatory compliance, we have had constructive interactions with our principal regulators, and have continued to contribute to the Competition and Markets Authority (CMA) investigation into the functioning of the UK Energy Market.

Overall operational performance was solid during the year. Customer service levels improved in the UK, with residential complaints down 18% and a higher NPS. In UK residential energy supply, the number of accounts was down by less than 1% in a highly competitive market, while we were the only major UK energy supplier to reduce residential gas tariffs twice in 2015, by a total of 10%. In North America, extreme cold weather in the first half of the year was handled well, while we delivered increased margins and growth in margin under contract in Direct Energy Business. E&P production and nuclear generation volumes were strong. However, as previously reported we did face issues following the migration of customer accounts and associated data onto a new billing and customer relationship management system from multiple legacy systems in British Gas Business. This resulted in temporary increases in operating costs to help resolve the issues and an increase in debt balances, while the number of customer accounts reduced over the year. Reflecting these factors, our UK business energy supply and services division reported an operating loss in 2015.

Reflecting the above, and the low commodity price environment, Group adjusted operating profit fell by 12% compared to 2014, to £1,459 million, although profit from our customer-facing energy and services businesses was up 19%. The Group tax rate of 26% was lower than in 2014, reflecting a reduced proportion of profit from the heavily-taxed E&P business. As a result, Group adjusted earnings only fell by 4% compared to last year, to £863 million, and adjusted earnings per share of 17.2p. These figures now include fair value depreciation related to our investments in Venture and Nuclear, a change in definition we announced in our December 2015 Trading Update. The 2015 final proposed dividend per share of 8.43p is in line with last year, taking the 2015 full year dividend to 12.0p.

We also incurred pre-tax impairments and onerous provisions on E&P and power generation assets of £2,358 million, resulting in total post-tax exceptional items of £1,846 million. These impairments reset the Group's balance sheet to reflect the current commodity price environment.

CASH FLOW RESILIENCE

We made good progress during the year in our actions to improve cash flows and strengthen the Group's financial position. Adjusted operating cash flow of £2,253 million was up 2% compared to 2014, with increased cash flow from our customer-facing businesses offsetting the impact of lower wholesale prices on E&P. We took action to reduce capital expenditure to just over £1 billion, including two small acquisitions. Combined with our decision to re-base the

Chief Executive's Statement continued

dividend in February 2015, the introduction of a scrip dividend alternative, and some divestment proceeds, net debt fell by 9% or £449m to £4.7 billion. Reflecting our focus on costs and capital discipline, our E&P business was free cash flow positive in 2015.

The steep falls in wholesale commodity prices will continue to have a material impact on the operating cash flows from our E&P and central power generation businesses in 2016 and beyond, if current levels persist. However our customer-facing businesses are delivering resilient cash flows, and benefits from our cost efficiency programme are starting to be realised. If current low wholesale prices continue beyond 2016, we have the flexibility to reduce our E&P capital expenditure further to the bottom end of our £400-£600 million range. As a result, we currently project that our sources and uses of cash flow will remain more than balanced over the period 2016-18, even if flat real wholesale oil, gas and power prices remain at low levels of $35/bbl Brent oil, 35p/therm UK NBP gas and £35/MWh UK power.

We remain confident in delivering at least 3-5% per annum operating cash flow growth at flat real prices from a 2015 baseline adjusted for current prices. Combined with more than balanced sources and uses of cash flow in this environment, our focus remains to deliver a progressive dividend in line with operating cash flow growth.

PROVIDING ENERGY AND SERVICES TO SATISFY THE CHANGING NEEDS OF OUR CUSTOMERS

Our customer-facing businesses are a source of competitive advantage given our distinctive positions and capabilities, and these businesses will be our focus areas for growth. As we set out in July, we expect to invest an additional £1.5 billion of operating and capital resources into these growth areas – energy supply, services, the connected home, distributed energy & power and energy marketing & trading – over the next five years. Implementation of our strategy is on track and we have made some material early progress in all of these areas.

In energy supply and services:

- We are focused on competitive pricing for all our customers and have made three UK residential gas price reductions since the start of 2015, saving British Gas customers almost £100 per year on average.
- We continue to develop our bundled energy and services propositions for residential customers in North America, with 46% of energy customer acquisitions in 2015 also taking a services protection plan or smart thermostat, up from 11% in 2014.
- We increased our number of energy accounts in the Republic of Ireland, the first growth in accounts for a number of years, as we focus on increasing our market share.
- We launched our new simpler 'Homecare' services product range in the UK and have plans to launch propositions which appeal to new customer segments, including on-demand and landlords, in 2016.
- We have now installed more than two million residential smart meters in the UK and expect to install over one million in 2016, allowing us to provide more customers with accurate bills and improving customer engagement.

In Connected Home:

- We have established a new international business unit, bringing together existing expertise in the UK and North America, including capabilities gained through the AlertMe acquisition in March 2015.
- We have now sold over 300,000 smart thermostats in the UK, having launched the next generation of our Hive Active Heating product in the second half of the year, and have sold nearly 200,000 smart thermostats in North America. We continue to develop plans to launch Hive products outside of the UK and Ireland in 2016.
- In early 2016 we launched a range of new connected home products in the UK, including the Hive Active Plug, Hive Window or Door sensor and Hive Motion Sensor.

In Distributed Energy & Power (DE&P):

- We have established a new international business unit and are looking to increase the number of customer relationships we have for distributed energy activity in the UK and North America from over 1,000 currently.
- We completed the acquisition of Panoramic Power, a leading provider of device-level energy management solutions, providing our DE&P business with leading capabilities in energy management technology and data science expertise and enabling us to enhance our offerings to Commercial & Industrial (C&I) customers.

In Energy Marketing & Trading (EM&T):

- We continue to build our capability and completed a number of 'free on board' (FOB) LNG cargoes in 2015 and have secured further cargoes which are scheduled for delivery in 2016.
- We expect to take delivery of the first cargo under our US export contract with Cheniere in late 2018 or early 2019, following a positive final investment decision on the fifth train of their Sabine Pass LNG facility in Louisiana in June.

REFOCUSING OUR E&P AND POWER BUSINESSES

As part of our strategic review, we also clarified the role of E&P in the portfolio – to provide diversity of cash flows and the balance sheet strength that goes with this. We are targeting a stable business that produces between 40-50mmboe of gas and oil per annum and requires between £400-£600 million of capital to fulfil this role. This compares to gas and oil production and capital expenditure levels respectively of 79mmboe and £728 million in 2015 and 80mmboe and £1,086 million in 2014.

As a result of capital discipline and cost efficiency programmes, E&P was free cash flow positive in 2015 despite the current low wholesale price environment. In the near term, at current depressed wholesale prices we will only invest in new E&P developments if the Group's cash flows can support the investment and the projects indicate good returns over a range of price environments. We currently expect to invest around £500 million in 2016, reflecting expenditure on existing in-flight projects such as Cygnus and Maria. However in the absence of a recovery in oil and gas prices, we could potentially make further reductions to the levels of E&P capital expenditure.

We will also be pursuing further cost reductions. We now expect cash production costs to be 15%, or £150 million, lower in 2016 when compared to 2014. This is £50 million lower than the levels previously announced. We will explore all options to strengthen our E&P business.

Our E&P focus is on the UK, Netherlands and Norway, and as such we continue to review options to release capital from our Trinidad and Tobago assets, while we now consider our positions in Canada to be non-core. We continue to work with our Canadian partners, Qatar Petroleum, as we seek ways to maximise value from our existing position.

In central power generation, we are in the process of rationalising our thermal power generation portfolio with a view to simplification and cost reduction, while retaining low-cost optionality. Our focus for growth is on peaking units and distributed generation. We continue to view our participation in nuclear power as a financial investment, while in wind power generation we announced in July that we intend to dispose of our interests in assets, while continuing to participate to a limited degree through power purchase agreements. In February 2016, we announced we were disposing of our 50% interests in the Glens of Foudland, Lynn and Inner Dowsing wind farms, with our net share of proceeds expected to be approximately £115 million. This disposal forms part of our divestment programme, under which we expect to realise £0.5-1 billion of proceeds from the sale of E&P and wind assets by the end of 2017.

COST EFFICIENCY

We announced as part of the strategic review conclusions that we are targeting £750 million per annum of like-for-like cost efficiencies from operating costs and controllable cost of goods, to be delivered over the next five years. We expect to achieve this from a 2015 controllable cost base of around £5 billion, before inflation, one-off investment to achieve the savings, the costs of installing smart meters and additional investment in growth areas. After inflation, we still expect like-for-like operating costs to reduce by around £300 million by 2020, and after additional operating costs to deliver incremental gross margin in the growth areas of services, Connected Home, DE&P and EM&T, we would expect total nominal operating costs in 2020 to be no higher than their 2015 level. We also announced that the programme would result in a reduction in like-for-like headcount of around 6,000 roles by 2020, with around half expected to come from redundancy and half from natural attrition.

The £750 million programme is now underpinned in our business plans. We remain on track to achieve the savings and have already made a number of restructuring announcements across the Group, which will result in the reduction of around 2,000 roles. We expect to achieve a reduction in direct headcount of around 3,000 by the end of 2016, excluding the impact of increased headcount in smart metering and in growth areas such as our Connected Home business. We have also made good progress in delivering savings from our third party cost base, with a number of initiatives on-going. As a result, we expect to deliver £200 million of annualised savings in 2016, and we are on track to achieve two-thirds or £500 million of the savings by 2018.

ORGANISING AROUND OUR CUSTOMERS

In January 2016 we announced fundamental changes to the way that Centrica will be organised, to support delivery of our strategy. Centrica has historically operated as a holding company for a number of different and largely self-contained businesses, each of which had its own organisation and way of doing things. This model made it harder for us to work together across businesses and share ideas and best practice, and meant we have not been taking advantage of Centrica's scale as an international energy and services company.

We have therefore moved to establish a single Group of international businesses and have created eleven business units. We have combined our energy and services activities around our residential and business customer segments and a common operating model, with the creation of UK Home, UK Business, North America Home, North America

Chief Executive's Statement continued

Business and Ireland business units. This will allow us to more effectively deliver products and services which respond to changing customer needs at a competitive price. The Home and Business units in both the UK and North America will be supported by common operating functions of Field Operations and Customer Operations, while our new Connected Home and DE&P business units will also leverage Home and Business respectively to sell their products.

EM&T will continue to provide services to the other businesses, while E&P, Nuclear and Centrica Storage will all be run as separate business units. All business units will be supported by nine Group functions, specifically Finance, Human Resources, Corporate Affairs, HSES (Health, Safety, Environment & Security), Information Services, Technology & Engineering, Group Marketing, Procurement and Legal, Regulatory & Compliance. These changes will allow Centrica to leverage its scale and operate in a more efficient, effective and joined-up way, allowing us serve our customers more effectively and efficiently while contributing to underlying cash flow growth.

KEY PERFORMANCE INDICATORS AND NEW SEGMENTS

The execution of our strategy is now underpinned by comprehensive implementation plans across all businesses and functions. We have also now defined the key performance indicators (KPIs) against which we will measure success in delivering our strategy, both at a Group and business unit level. The KPIs for our energy and services businesses are consistent across geographies, in line with the establishment of a common operating model, while the KPIs for all business units are intended to provide an appropriate balance of growth and efficiency metrics.

Details of these KPIs are included in an appendix on pages 19 to 23. We intend to report these KPIs in each half year and full year results announcement, starting at our Interim Results in July 2016.

In addition, new reporting segments are in place, effective from 1 January 2016, aligned to the new strategy and the way we now run the business. These will also be reported against for the first time at our Interim Results in July 2016. Details of the new segments can be found in the Group Financial Review on page 8.

COMPETITION AND MARKETS AUTHORITY INVESTIGATION

The Competition and Markets Authority (CMA) investigation into the UK energy market is ongoing and the Provisional Decision on Remedies is now expected in March 2016, with the final report due in June 2016. This follows the publication of the CMA's provisional findings and notice of possible remedies in July 2015. We have contributed constructively to the process and improved customer trust in the functioning of the energy market is something we would welcome.

We have expressed concerns over some of the CMA's provisional findings and proposals including the potential introduction of a transitional 'safeguard regulated tariff'. We also expressed concerns regarding their analysis of profitability and returns. As part of our response to the CMA we suggested an alternative to the 'safeguard regulated tariff', the ending of evergreen tariffs. As long as this is implemented appropriately, we believe it will improve engagement by providing customers with a regular prompt to review their energy tariff, addressing the concerns the CMA may have around customer engagement without the need for a regulated tariff. We will continue to engage with the CMA as their process comes to a conclusion over the coming months.

2016 OUTLOOK AND SUMMARY

The lower commodity price environment will inevitably continue to have an impact on the earnings and operating cash flow from our E&P and central power generation businesses. However, with our focus on cash flow growth and delivery of our £750 million cost efficiency programme, we currently expect to deliver adjusted operating cash flow in excess of £2 billion in 2016.

In summary, Centrica has produced a resilient performance in 2015 and the actions we have taken leave us well positioned to handle the current environment, with sources and uses of cash flow more than balanced at current wholesale commodity prices. With a strategy developed around the customer, we have a clear purpose and direction. Implementation of the strategy is on track and I am pleased with the progress we have made to date. I am confident in our ability to deliver our target of at least 3-5% growth in operating cash flow per annum at flat real commodity prices, underpinning a progressive dividend policy and delivering shareholder value through returns and growth.

Iain Conn
Chief Executive
18 February 2016

Group Financial Review

GROUP REVENUE

Group revenue decreased by 5% to £28.0 billion (2014: £29.4 billion). British Gas gross revenue fell 4% to £12.4 billion, primarily as a result of lower average sales prices reflecting the lower price environment and a lower number of business energy supply points. Direct Energy gross revenue fell by 11%, also reflecting the impact of lower gas prices on energy unit tariffs, and the impact of the disposal of the Ontario home services business in October 2014. Bord Gáis Energy gross revenue increased by 87% reflecting twelve months of ownership in 2015 compared to six months in 2014. Centrica Energy gross revenue fell by 6%, primarily reflecting lower achieved prices in the current commodity environment, partially offset by increased midstream revenue. Centrica Storage gross revenue increased by 5% with the sale of cushion gas more than offsetting the impact of lower seasonal gas price spreads and reduced capacity at the Rough asset.

OPERATING PROFIT

All profit and earnings figures now include fair value depreciation related to our Strategic Investments in Venture and Nuclear, which was previously excluded from adjusted measures. Throughout the statement, reference is made to a number of different profit measures, which are shown below:

				2015			2014
Year ended 31 December	Notes	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit							
British Gas		**809**			823		
Direct Energy		**328**			150		
Bord Gáis Energy		**30**			7		
Centrica Energy		**255**			648		
Centrica Storage		**37**			29		
Total adjusted operating profit	5(c)	**1,459**			1,657		
Interest and taxation on joint ventures and associates	5(c)	**(61)**			(89)		
Group operating profit/(loss)	5(c)	**1,398**	**(2,255)**	**(857)**	1,568	(2,705)	(1,137)
Net finance cost	7	**(279)**	**–**	**(279)**	(266)	–	(266)
Taxation	8	**(286)**	**538**	**252**	(375)	773	398
Profit/(loss) for the year		**833**	**(1,717)**	**(884)**	927	(1,932)	(1,005)
Attributable to non-controlling interests		**30**			(24)		
Adjusted earnings		**863**			903		

Total adjusted operating profit fell 12%. British Gas operating profit fell 2%. Within this, residential energy supply operating profit increased, reflecting higher gas volumes due to more normal weather conditions, and lower costs, including those associated with delivery of the ECO programme. Residential services profit fell by 5%, with the impact of lower accounts and inflationary cost increases partially offset by cost efficiency measures, including a £23 million one-time credit relating to the implementation of a Pension Increase Exchange (PIE) for our defined benefit scheme members. Business energy supply and services reported an operating loss, primarily reflecting a higher bad debt charge and temporary additional operating costs relating to the implementation of a new billing and CRM system.

Direct Energy operating profit increased significantly, with no repeat of additional Polar Vortex related costs incurred in 2014 and the realisation of higher margins on business energy supply contracts. This more than offset an operating loss in Direct Energy Services, as a result of the sale in 2014 of the Ontario home services business and additional costs related to accelerated investment in our solar business. Bord Gáis Energy made an operating profit of £30 million in the first full year since its acquisition.

Centrica Energy operating profit fell by 61%. Gas operating profit fell 73%, predominantly reflecting the impact of lower commodity prices. Power profitability increased by 40% with higher output from the nuclear fleet, the absence of net one-off negative impacts of £17 million on renewables in 2014 and a reduced loss on gas-fired assets due to a lower

Group Financial Review continued

depreciation charge reflecting prior year impairments. Centrica Storage operating profit increased by 28%, predominantly reflecting additional revenue from the sale of cushion gas.

NEW REPORTING SEGMENTS FROM 2016

From 1 January 2016, new reporting segments are in place. These are detailed below:

Year ended 31 December	Year	Year	Change
UK Home			
UK Business			
Ireland			
Total UK and Ireland energy supply and services			
North America Home			
North America Business			
Total North America energy supply and services			
Connected Home			
Distributed Energy & Power			
Energy Marketing & Trading			
E&P			
Central Power Generation			
Centrica Storage			
Total			

GROUP FINANCE CHARGE AND TAX

Net finance costs increased slightly to £279 million (2014: £266 million), reflecting a higher interest cost on bonds following the issuance of £1 billion equivalent of hybrid securities. The taxation charge reduced to £286 million (2014: £375 million) and after taking account of tax on joint ventures and associates the adjusted tax charge was £294 million (2014: £402 million). The resultant adjusted effective tax rate for the Group was 26% (2014: 30%), predominantly reflecting a shift in the mix of profit towards the lower taxed downstream businesses. An effective tax rate calculation, showing the UK and non-UK components, is shown below:

Year ended 31 December	**UK £m**	**Non-UK £m**	**2015 Total £m**	UK £m	Non-UK £m	2014 Total £m
Adjusted operating profit	**1,057**	**402**	**1,459**	1,196	461	1,657
Share of joint ventures/associates interest	**(53)**	**–**	**(53)**	(62)	–	(62)
Net finance cost	**(156)**	**(123)**	**(279)**	(152)	(114)	(266)
Adjusted profit before taxation	**848**	**279**	**1,127**	982	347	1,329
Taxation on profit	**74**	**212**	**286**	125	250	375
Share of joint ventures'/associates' taxation	**8**	**–**	**8**	27	–	27
Adjusted tax charge	**82**	**212**	**294**	152	250	402
Adjusted effective tax rate	**10%**	**76%**	**26%**	15%	72%	30%

GROUP EARNINGS AND DIVIDEND

Reflecting all of the above, profit for the year fell to £833 million (2014: £927 million) and after adjusting for losses attributable to non-controlling interests, adjusted earnings were £863 million (2014: £903 million). Adjusted basic earnings per share (EPS) was 17.2 pence (2014: 18.0 pence).

The statutory loss attributable to shareholders for the period was £747 million (2014: loss of £1,012 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The change compared to 2014 is principally due to a net gain from certain re-measurements of £129 million compared to a net loss of £771 million in 2014, partially offset by higher post-tax exceptional charges of £1,846 million (2014: £1,161 million). The Group reported a statutory basic EPS loss of 14.9 pence (2014: loss of 20.2 pence).

In addition to the interim dividend of 3.57 pence per share, we propose a final dividend of 8.43 pence, giving a total ordinary dividend of 12.0 pence for the year (2014: 13.5 pence).

Group Financial Review continued

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Group operating cash flow before movements in working capital fell to £2,324 million (2014: £2,726 million). After working capital adjustments, tax, and payments relating to exceptional charges, net cash flow from operating activities was £2,197 million (2014: £1,217 million). Adjusted operating cash flow, reconciled to operating cash flow in the table below, was up 2%, to £2,253 million (2014: £2,201 million).

Year ended 31 December	**2015**	2014
Net cash flow from operating activities	**£2,197m**	£1,217m
Add back/(deduct):		
Net margin and cash collateral (inflow)/outflow (i)	**(£282m)**	£640m
Payments relating to exceptional charges	**£81m**	£125m
Dividends received from joint ventures and associates	**£180m**	£138m
Defined benefit deficit pension payment	**£77m**	£81m
Adjusted operating cash flow	**£2,253m**	£2,201m

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

The net cash outflow from investing activities decreased to £611 million (2014: £651 million), with lower organic capital expenditure broadly offsetting reduced proceeds from disposals.

The net cash outflow from financing activities was £1,331 million (2014: £663 million). The impact of lower cash dividends resulting from our decision to rebase the dividend by 30% and high take-up of our scrip dividend alternative, combined with no repurchase of shares, was more than offset by the impact of a net repayment of borrowings of £650 million compared to net inflow from borrowings of £793 million in 2014.

Reflecting all of the above, the Group's net debt at the end of 2015 fell to £4,747 million (2014: £5,196 million), which includes cash collateral posted or received in support of wholesale energy procurement.

During the year net assets decreased to £1,342 million (2014: £3,071 million) primarily reflecting the statutory loss in the year.

ACQUISITIONS AND DISPOSALS

On 17 March 2015, the Group gained control of AlertMe, a UK-based connected homes business that provides innovative energy management products and services. Prior to this date, the Group held an interest in the company and under this transaction acquired the remaining share capital. The purchase consideration, net of cash received for the previously held interest, was £44 million.

On 30 November 2015, the Group acquired Panoramic Power, a leading provider of device-level energy management solutions for a net purchase consideration of $64 million (£42 million).

Further details on acquisitions, plus details of assets purchased, disposals and disposal groups are included in notes 5(f) and 15.

EXCEPTIONAL ITEMS

Net exceptional pre-tax charges of £2,358 million were incurred during the year (2014: £1,597 million).

The Group recognised a pre-tax impairment charge of £1,865 million (post-tax £1,396 million) on a number of E&P production assets, reflecting declining wholesale gas and oil prices.

On power assets, the Group recognised a pre-tax impairment charge of £31 million and an onerous power procurement provision of £70 million relating to our finance leased UK gas-fired power station, reflecting declining forecast capacity market auction prices and clean spark spreads. The Group also recognised a further pre-tax onerous contract provision of £20 million for the Direct Energy wind power procurement arrangement. In addition, the Group recognised a pre-tax impairment charge of £372 million on its nuclear investment due to declining forecast power prices and capacity market auction prices.

Taxation on these charges generated a credit of £477 million (2014: £436 million), and combined with a reduction in net deferred tax liabilities of £116 million related to the effect of a change in UK tax rates and an £81 million impairment charge on E&P deferred tax assets which are no longer expected to be recoverable against future tax profits, meant that exceptional post-tax charges totalled £1,846 million (2014: £1,161 million).

Group Financial Review continued

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 loss in the statutory results includes a net pre-tax gain of £103 million (2014: net loss of £1,108 million) 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 5 February 2016, Centrica and its joint venture partner announced the joint sale of the Glens of Foudland, Lynn and Inner Dowsing (GLID) wind farms. After repayment of debt associated with GLID and other costs, Centrica's net share of the sales proceeds will be approximately £115 million, which exceeds the carrying value of the disposed assets. It is anticipated that the transaction will be completed during March 2016.

Further details of events after the balance sheet 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 2014 Annual Report and Accounts. 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.

Business Review

BRITISH GAS

Year ended 31 December	**2015**	2014	Change
Residential energy supply operating profit (BGR)	**£574m**	£439m	31%
Residential services operating profit (BGS)	**£257m**	£270m	(5%)
Business energy supply and services operating (loss)/profit (BGB)	**(£22m)**	£114m	nm
Total British Gas operating profit	**£809m**	£823m	(2%)
BGR post-tax margin	**5.6%**	4.1%	1.5ppts
BGR average gas consumption per customer (therms)	**427**	408	5%
BGR average electricity consumption per customer (kWh)	**3,496**	3,498	(0%)
British Gas total gas consumption (mmth)	**4,151**	4,085	2%
British Gas total electricity consumption (TWh)	**36.8**	39.1	(6%)
Total recordable injury frequency rate (per 200,000 hours worked)	**1.06**	0.92	15%
Residential energy customer accounts (year end, '000)	**14,659**	14,778	(1%)
Residential services product holding (year end, '000) (i)	**7,713**	8,011	(4%)
Business energy supply points (year end, '000)	**763**	854	(11%)

(i) 2014 residential services product holdings have been restated to include 41,000 holdings following data assurance activity of our analytical system.

British Gas operating profit fell 2% in 2015, with an operating loss in BGB caused by issues resulting from the implementation of a new billing and CRM system mostly offset by an increase in BGR operating profit, with consumption returning to more normal levels following a mild 2014. In a competitive environment we are focused on delivering increased efficiencies, improved customer service and innovative customer propositions across British Gas.

CUSTOMER SERVICE

Improving our levels of customer service is a key focus and in April we announced we were dedicating a further £50 million of resources over three years in serving our residential energy customers, to help achieve our goal of delivering excellent service. We completed recruitment of more than 350 additional customer service agents by the end of September, which enabled us to provide resilient service levels in the fourth quarter and our residential energy contact centre NPS increased by 9 points over 2015, to +28. In Services, our engineer NPS increased to a record high of +70 for the year. Our nationwide network of around 8,000 highly trained service engineers with trusted access to customers' homes remains a competitive advantage for British Gas. We have also seen a consistent improvement during 2015 in our brand reputation.

Providing customers with the tools to interact and engage through digital channels is increasingly important, to improve customer satisfaction and to help reduce costs, and we are focused on transforming the digital customer experience. We have made good progress in developing our digital platforms and during the year we launched a new simplified 'homemove' customer journey, which has helped increase retention of customers moving home by 23 percentage points.

CONNECTED HOME, INNOVATION AND SMART METERING

Innovative customer offerings, including connected home products, are increasingly important to improve customer satisfaction and retention. We have established a significant position in connected homes in the UK and in March 2015 we completed the acquisition of AlertMe, the provider of the technical platform that underpins our existing connected home activity, including our 'in-house' developed Hive smart thermostat. The acquisition means Centrica has ownership and control over a scalable technology platform, software development capability and data analytics, to enable us to provide a full end to end customer experience.

In July 2015 we launched Hive Active Heating 2, the next generation of our smart thermostat. We have now sold over 300,000 smart thermostats in the UK, providing us with the largest installed base of connected thermostats. Around 80% of Hive customers say they have recommended the product, and 42% of Hive customers who also have one of our energy or services products say they feel more positive about British Gas as a result. In early 2016 we launched a range of connected home products in the UK, including Hive Window or Door sensor, Hive Active Plug and Hive Motion Sensors. We have a strong development pipeline of further innovative products planned for 2016, including Hive Active Lights and our 'connected boiler', which is currently on commercial trial.

Business Review continued

Smart meters will bring significant benefits to customers, including an end to estimated bills, greater ability to monitor and reduce consumption and simpler and faster switching between suppliers, helping to improve trust in the UK energy industry. We have now installed more than two million residential smart meters in the UK, significantly more than any of our competitors, as we scale the business to ensure we are fully mobilised for delivery of the mandated roll-out by 2020. We are currently trialling smart meters to our pre-payment customers, with around 50,000 customers participating in the trial and a full commercial launch is planned for the second half of 2016. Over 800,000 of our smart meter customers now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption. The report is helping to improve levels of customer satisfaction and the overall perception of British Gas, with a +21 NPS improvement for customers engaging with the report. We are also trialling 'my energy live' which allows customers to access many of the in-home display functions on their smart phone or tablet device.

BRITISH GAS RESIDENTIAL

British Gas Residential operating profit increased, reflecting a 5% increase in average gas consumption despite the warmest December on record, with more normal UK temperatures on average in the year compared to a mild 2014. In addition, costs associated with delivery of the ECO programme were lower, predominantly reflecting improved efficiency and the phasing of expenditure on the programme as we accelerated delivery in 2014 to ensure we met our obligations under Phase 1 of the programme. We have helped nearly 500,000 households under the ECO programme to date.

Our residential energy customer accounts fell by less than 1% over the year, in a competitive market environment. We are adapting to the changing market with competitive fixed price and collective switch offerings and our fixed-price Sainsbury's tariff delivered particularly strong sales, generating new to brand customers. In February 2016, we announced a further cut in our residential gas prices, becoming the only major UK energy supplier to cut prices three times since the start of 2015. The average British Gas customer bill is around £100 less now than at the start of 2015.

BRITISH GAS SERVICES

The sales environment remains challenging for our UK services business, with a continued shift in customer demand towards cheaper on-demand and home emergency products. Against this backdrop, we are focused on improving sales performance through enhancing the online journey and the development of new propositions to better meet this changing customer demand. In the fourth quarter of 2015 we launched our new simpler 'Homecare' product range and although accounts declined during the second half of 2015, the net rate of loss was reduced compared to the first half. The market for central heating installations is also proving challenging, with market demand changing towards simpler and faster installations. Reflecting this, in the second half of 2015 we launched new propositions, such as "straight swaps", targeted at these customer segments.

British Gas Services operating profit fell by 5%, with the impact of lower contract holdings partly offset by a continued focus on cost management. Costs are a key area of focus and we are committed to managing our cost base to improve efficiency and effectiveness. In support of this, we made changes to our defined benefit pension schemes, resulting in a £23 million credit.

BRITISH GAS BUSINESS

British Gas Business was affected by issues following the migration of customer accounts and associated data onto a new billing and CRM system from multiple legacy systems, which had a significant impact on customer service, including difficulties in producing timely customer bills. To help resolve these issues we recruited additional resource and customer service levels have begun to improve. Complaints in the second half were down 9% compared to the first half of the year, while unresolved complaints fell by 50% in comparison to the peak in early 2015.

All our business customer accounts have been migrated onto the new system and billing performance is now better than under the old legacy system, with cash collection continuing to be a key area of focus. The new system is enabling us to digitise the customer journey, allowing us to target further improvements in customer service at reduced cost.

The number of business energy supply points fell by 11% during 2015, with our focus on resolving the billing issues for existing customers limiting the opportunity for new sales in a competitive market. In addition, the business incurred temporary increases in operating costs to help resolve the system issues and an increase in the bad debt charge. As a result, the business reported an operating loss in the year.

Business services and distributed energy are key sources of differentiation and will help us retain existing customers and acquire new ones, as well as providing growth opportunities in their own right. We have good capabilities in this space, and will continue to develop propositions for our C&I customers through the newly established Distributed Energy & Power business unit.

DIRECT ENERGY

Year ended 31 December	2015	2014	Change
Residential energy supply operating profit (DER)	**£111m**	£90m	23%
Residential and business services operating (loss)/profit (DES)	**(£34m)**	£28m	nm
Business energy supply operating profit (DEB)	**£251m**	£32m	684%
Total Direct Energy operating profit	**£328m**	£150m	119%
Total Direct Energy operating profit (excluding impact of Polar Vortex related charges in 2014)	***£328m***	*£215m*	*53%*
DEB total gas volumes (mmth)	**5,802**	5,923	(2%)
DEB total electricity volumes (TWh)	**94.0**	96.9	(3%)
DER average gas consumption per customer (therms)	**1,266**	1,403	(10%)
DER average electricity consumption per customer (kWh)	**11,158**	10,888	2%
Direct Energy total gas volumes (mmth)	**7,732**	8,163	(5%)
Direct Energy total electricity volumes (TWh)	**112.1**	116.3	(4%)
Total recordable injury frequency rate (per 200,000 hours worked)	**1.58**	1.48	7%

Residential energy customer accounts (year end, '000)	**3,033**	3,256	(7%)
Residential services product holding (year end, '000)	**1,003**	897	12%
Business energy supply points (year end, '000)	**597**	600	(1%)

Direct Energy delivered significantly higher operating profit than in 2014. Much colder than normal weather at the start of 2015 benefited the business, as a more stable physical infrastructure, market redesign and management action meant we did not see a repeat of the additional network system charges resulting from the Polar Vortex in 2014, although this benefit was partially offset by un-seasonally warm weather in the fourth quarter of 2015. In addition, our C&I business benefitted from higher unit margins on contracts sold in prior years and our residential energy business benefitted from acquiring higher consuming customers. However, the services business reported an operating loss, primarily due to ongoing investments in residential solar.

In November, we announced we were combining our residential energy and services activities, organising the business around our customer segments. This will allow us to develop a more sustainable residential business, improving commercial performance and delivering cost efficiency. We also made good progress in building the Direct Energy brand across North America. During the year we joined a range of well-known brands to launch Plenti, the first United States-based coalition loyalty programme, and we re-launched our Direct Energy and First Choice Power brands in residential energy.

DIRECT ENERGY BUSINESS

Direct Energy Business reported a significant increase in operating profit in 2015, even after taking into account the absence of the one-off Polar Vortex costs in 2014. This reflects higher margins on contracts sold from 2014 onwards, lower amortisation costs related to the Hess Energy Marketing acquisition and a more balanced business between power and gas. In addition, natural gas pipeline and storage capacity contracts were utilised to deliver strong optimisation performance during periods of cold weather in the first quarter of the year.

Overall gas and electricity volumes delivered to customers were slightly down compared to 2014 due to a warm December. However Direct Energy maintained its position as the largest C&I gas supplier and the second largest C&I power supplier in the United States. Unit margins on new C&I gas and power sales have remained broadly at the levels achieved in 2014, with increased margins on power sales and lower margins on gas sales.

During 2015 we continued to enhance our online customer experience, through the launch of 'MyAccount'. This online platform simplifies online bill payment and account management. We are currently experiencing over 14,500 'MyAccount' log-ins each month.

We continue to look for opportunities to enhance our offerings to our C&I customers. Through our relationship with SolarCity, we completed a number of commercial solar installations for customers across the US. In November we completed the acquisition of Panoramic Power with whom we have had a successful partnership since 2014. The acquisition provides Centrica with leading capabilities in energy management technology and data science expertise, with around 25,000 sensors deployed across 700 sites in 30 countries, and enables us to offer enhanced and

Business Review continued

innovative propositions to customers which allow them to better understand their energy consumption. It will also help advance our Distributed Energy & Power offering in North America.

DIRECT ENERGY RESIDENTIAL

Direct Energy Residential operating profit increased in 2015. This predominantly reflects the absence of Polar Vortex costs incurred in 2014.

The number of customer accounts declined by 223,000, reflecting competitive market pressures in the US North East and the continued impact of the Energy Consumer Protection Act (ECPA) in Ontario. Against this backdrop, we continue to build our capabilities to deliver enhanced and innovative customer propositions, including the bundling of energy and services products as we aim to retain and attract the highest value customers. In 2015, 46% of residential customers acquired also took a services protection plan or smart thermostat, up from 11% in 2014. We also began to execute on our strategy of attracting higher consuming customers.

We continue to offer innovative products and have now sold nearly 200,000 smart thermostats in North America, enabling our customers to reduce and better control their energy consumption. Our 'Direct Your Energy' insight tool, launched in July 2015, allows customers to itemise their energy usage by major household appliance. In addition, we launched 'Reduce Your Use Rewards' which incentivises customers to use less energy in peak demand periods. In July 2015 we launched 'Direct Your Plan', a personalised service enabling residential customers to build their own energy plan from a number of options such as length of contract, energy type, energy efficiency tools, reward programmes and home services.

We remain focused on delivering high levels of customer service and in 2015 our 'right first time' metric increased by 10 percentage points. We also continue to drive digital customer interactions, helping improve the customer experience and reducing costs, and 21% of new customer acquisitions in 2015 were obtained through digital channels, an increase of 2 percentage points in comparison to 2014. Cost efficiency is also a key focus and in 2015 we delivered a 2% year-on-year reduction in residential energy cost to serve per customer.

DIRECT ENERGY SERVICES

Direct Energy Services reported an operating loss of £34 million in 2015, compared to a £4 million like-for-like operating profit in 2014 which excludes the contribution from the Ontario home services business which was sold in October 2014. The loss in 2015 reflects an accelerated investment in Direct Energy Solar.

We continue to grow our services annuity business, and the number of contract relationships across North America increased by 12%, and is now over one million. During the year we re-priced our protection plan offerings to better reflect the costs and risks associated with the portfolio of product offerings, while maintaining a competitive offer to our customers. Our residential new construction business performed well, as did our franchise operations as we expanded our reach to 78 new locations and now serve 650 in total. The combining of our residential activities into DE Home will help us to achieve our goal of building long-term customer relationships.

BORD GÁIS ENERGY

Year ended 31 December	2015	6 month period to 31 December 2014	Change
Total Bord Gáis Energy operating profit	**£30m**	£7m	nm
Residential average gas consumption per customer (therms)	**366**	127	nm
Residential average electricity consumption per customer (kWh)	**4,550**	2,373	nm
Total gas volumes (mmth)	**294**	106	nm
Total electricity volumes (TWh)	**2.6**	1.4	nm
Total power generated (TWh) [(i)]	**2.5**	1.0	nm
Total recordable injury frequency rate (per 200,000 hours worked)	**0.66**	0.26	nm

Year ended 31 December	2015	2014	Change
Residential energy customer accounts (year end, '000)	**629**	608	3%
Business energy services customer supply points (year end, '000)	**36**	31	16%

(i) 2014 total power generated has been restated by 0.1TWh based on market schedule quantity (MSQ).

Bord Gáis Energy performed strongly in 2015, ahead of its acquisition case, and reported an operating profit of £30m in the first full reporting year since its acquisition in June 2014. Employee engagement has remained high since the acquisition, and having introduced a more robust procedure for measuring contact NPS in the first quarter we recorded an overall NPS of +16 for the year, including an NPS of +66 in our boiler servicing department.

Bord Gáis Energy was the first energy provider to announce price reductions in the Republic of Ireland in both January and September 2015, with residential gas and electricity price cuts totalling 6% and 4.5% respectively. These reductions positioned us with the cheapest standard dual fuel offering amongst our major competitors. Reflecting this, the business returned to residential energy account growth in both gas and electricity, the first time this has grown since 2011, while the number of multi-product customers increased by 30% during 2015. In addition, the number of business energy service supply points also increased by 16% to 36,000 in the year.

Bord Gáis Energy is also leveraging Centrica's expertise in deregulated energy markets, having launched the first residential fixed price tariff in the Republic of Ireland and also introduced Hive Active Heating. Early take up has been positive.

In power generation, our flexible 445MW Whitegate gas-fired station operated ahead of expectations and delivered high reliability, protecting our customers from power price volatility during peak times in a highly vertically integrated market.

Business Review continued

CENTRICA ENERGY

Year ended 31 December	2015	2014	Change
Gas operating profit	**£153m**	£575m	(73%)
Power operating profit/(loss)	**£102m**	£73m	40%
Gas-fired	***(£118m)***	*(£120m)*	*nm*
Renewables	***£29m***	*£10m*	*190%*
Nuclear	***£173m***	*£152m*	*14%*
Midstream	***£18m***	*£31m*	*(42%)*
Total Centrica Energy operating profit	**£255m**	£648m	(61%)
Gas operating profit after tax	***£45m***	*£290m*	*(84%)*
Gas production (mmth) (i)	**3,664**	3,772	(3%)
Liquids production (mmboe) (i)	**18.5**	17.3	7%
Total gas and liquids production (mmboe) (i)	**78.6**	79.5	(1%)
Upstream proven and probable reserves (mmboe) (ii)	**528**	585	(10%)
Total UK power generated (TWh)	**19.3**	22.1	(13%)
Total recordable injury frequency rate (per 200,000 hours worked)	**0.68**	0.84	(19%)

Gas and power operating profit include fair value depreciation related to our investments in Venture and Nuclear. 2014 comparators have been restated accordingly.

(i) Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum.
(ii) Centrica's share of reserves, including a 60% share of Canadian assets owned in partnership with QP, and excluding Rough cushion gas of 29mmboe.

Centrica Energy delivered good operational performance in 2015, with higher than planned levels of E&P production and nuclear generation. However the business reported a significantly reduced operating profit and recognised post-tax impairments and onerous provisions totalling £1,950 million on E&P and power generation assets, predominantly reflecting the impact of falling wholesale commodity prices, spark spreads and forecast capacity auction prices. Against this backdrop we made significant progress in re-positioning the business, achieving reductions in both E&P cash production costs and capital expenditure, and the E&P business was free cash flow positive in the year.

GAS

Our E&P business delivered good production performance, with total gas and liquids production down 1% to 78.6mmboe. Gas production was down 3% and liquids production was up 7%.

In Europe, total production was down 1%. Norwegian production increased by 16% reflecting consistently high production from Kvitebjorn and Statfjord and a first contribution from the large-scale Valemon project in the North Sea, which came on-stream in January 2015. UK and Netherlands production decreased by 14%, reflecting the natural decline of producing fields and an extended maintenance shutdown at Morecambe.

In the Americas, total production decreased 2%, with the benefit from new wells acquired and drilled in Canada in 2014 largely offsetting natural decline in the portfolio. Trinidad and Tobago production was down 5% compared to 2014.

We have made significant progress in refocusing our E&P business. A number of initiatives have enabled us to deliver cost efficiencies, including management action to renegotiate contractor rates, headcount reductions in support roles and working with license partners and operators to deliver savings. European unit cash production costs were down 6% compared to 2014. In the Americas, unit cash production costs reduced by 13%, in part reflecting reduced Canadian royalties as a result of lower North American gas prices. We have increased our target reduction in lifting and other cash production costs in 2016 to 15%, or £150 million, compared to 2014.

Organic capital expenditure in 2015 was £728 million, 33% lower than in 2014. This included spend on the large-scale Cygnus project, which is expected to achieve first gas in the first half of 2016. In the current price environment we have acted to minimise other capital expenditure, including exploration. We are focusing on maintaining and optimising production from our assets and on completing committed development projects. These projects include Cygnus and Maria, on which we took a final investment decision during 2015 and which is due to produce first oil in 2018. We expect capital expenditure to be around £500 million in 2016. Centrica Energy's proven and probable (2P) reserves of 528mmboe at the end of 2015 were 10% lower than in 2014, with positive revisions to reserves in Norway and Canada partially offsetting the impact of production during the year.

Our gas midstream business delivered a strong trading performance in the second half of the year, including recognising a £24 million gain following the settlement of a disputed long term gas field contract. This more than offset a first half operating loss, following the optimisation of a number of flexible gas contracts for value during a period of falling prices in

2014, with a consequential impact on 2015. In LNG, the Federal Energy Regulatory Commission (FERC) issued authorisation in April 2015 to allow Sabine Pass Liquefaction LLC to construct and operate the fifth train expansion at their LNG facility in Louisiana. At the end of June 2015 the project received a Non-Free Trade Agreement licence from the Department of Energy (DOE), and with a positive final investment decision now having been made on the project Centrica expects to take delivery of its first cargo under its US export contract in late 2018 or in 2019. We continue to increase our capabilities and presence in global LNG and have completed a number of FOB cargoes, including our first delivery to South America, and have secured further cargoes which are scheduled for delivery in 2016.

Overall Gas operating profit fell 73%, predominantly reflecting lower achieved oil and gas prices and a reduced contribution from the gas midstream business. We also recognised exceptional post-tax impairments of £1,477 million relating to our E&P assets, as a result of declining oil and gas prices.

POWER

Our share of nuclear power generation for the year was up 8%, reflecting good reliability from the fleet. The four reactors at Heysham 1 and Hartlepool power stations were all operational in the year, albeit at reduced load, having been temporarily shut-down in the second half of 2014 following the identification of an issue on one boiler spine at Heysham 1 in 2014. A programme of cooling modifications was successfully implemented during 2015, and temperature restrictions have now been lifted. This means that three of the reactors can now reach 100% output, with further work planned in 2016 on Heysham 1 Reactor 1 to increase power.

In thermal power generation, market spark spreads and our plant's load factors remained low during the year. Gas-fired volumes were down 37%, which also reflects an unplanned outage at Langage in the first half. In December 2015, the second UK power capacity auction took place for 2019/20 capacity, clearing at £18.0/kW/year. Our Humber and Langage plants were successful in the auction, as were all the nuclear reactors in which we have a 20% equity interest. Humber and Langage remain core assets, alongside Brigg, which is now operating as a distributed energy asset and Peterborough, where we have the potential to make a similar conversion. Killingholme will close in March 2016 once its Supplemental Balancing Reserve (SBR) contract ends, while Barry will only continue to operate if profitability can be secured in short term flexibility markets.

Our wind assets delivered increased wind yields but generation volumes fell by 3%, reflecting the disposal of our share in the Barrow offshore wind farm in December 2014.

Total Power operating profit increased by 40%. Nuclear profit was up, with the higher volumes and good cost management more than offsetting the impact of lower market power prices. The operating loss from our gas-fired fleet was broadly flat. Renewables profit increased, with 2014 including net negative one-off impacts of £17 million resulting from development project write-downs partially offset by profits on disposal. Midstream profit was lower in comparison to a strong performance in 2014.

We also recognised an exceptional post-tax impairment of £372 million relating to our nuclear investment and £101 million relating to our Spalding contract asset, which includes an onerous contract provision of £70 million. These arose primarily as a result of declining baseload power, clean spark spread and forecast capacity auction prices.

Business Review continued

CENTRICA STORAGE

Year ended 31 December	**2015**	2014	Change
Total Centrica Storage operating profit	**£37m**	£29m	28%
Total recordable injury frequency rate (per 200,000 hours worked)	**1.30**	1.02	27%

Seasonal gas price spreads fell to historically low levels over the second half of 2015, with an abundance of flexible supply across Europe, and they remain at these low levels creating a challenging outlook for the Rough asset. It was announced in April 2015 that all SBUs for the 2015/16 storage year had been sold at 21.1p, only marginally higher than the 20.0p achieved in 2014/15, which was the lowest SBU price since Centrica acquired the Rough asset in 2003.

In March 2015, Centrica Storage announced that during a routine inspection of Rough a potential technical issue had been discovered. As a result, we decided to limit the maximum operating pressure of the Rough wells to 3,000 psi, the equivalent of limiting the stock in the Rough asset to 29-32TWh. The highest level reached in 2014 was 41.1TWh. Reflecting the reduced maximum operating pressure, Centrica Storage has reduced the number of SBUs it will sell for the 2016/17 storage year to 340 million, from 455 million in 2015/16, and in February 2016 announced that it had sold over 80% of this lower capacity. It is anticipated that the limitation will remain in place at least until the testing and verification works are completed between September 2016 and December 2016.

In July 2015 Centrica Storage received consent from the Oil and Gas Authority to increase the reservoir size of Rough by 4.5TWh. As a result, the capacity of Rough has been partially recovered and a proportion of the cushion gas associated with this was sold in the second half of the year. Operating profit was slightly higher in 2015 than in 2014, with the sale of this cushion gas more than offsetting the negative impact of the pressure limitation on Rough.

In September 2015 the Competition and Markets Authority (CMA) announced a consultation on the Rough Undertakings, following a request from Centrica Storage in light of the operating pressure limitations of the Rough wells. The final report is expected in April 2016.

Against a challenging external environment, Centrica Storage has completed a reorganisation of the business, allowing it to focus on health and safety, efficiency and cost control, while maintaining the integrity of the ageing Rough asset.

Centrica External Metrics (to be reported against from July 2016)

TOTAL CENTRICA

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Home			
UK & Ireland			
North America			
Business			
UK & Ireland			
North America			
Customer account holdings ('000s)			
Home			
Business			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Energy use per residential energy customer			
UK & Ireland (kWh)			
North America (kWh)			
Cost to serve per Home account (£)			
UK & Ireland			
North America			
Cumulative hubs installed (Connected Home) ('000s)			
Active customers (DE&P)			
Growth revenue (Connected Home, DE&P)			
E&P total production volumes (mmboe)			
Adjusted operating costs (£m)			
Adjusted operating costs as a % of gross margin			
Direct Group headcount (year end)			
Adjusted operating cash flow (£m)			
Underlying adjusted operating cash flow growth at flat commodity prices			
Capital expenditure (£m)			
ROACE (post-tax)			
Adjusted operating profit (£m)			
Adjusted earnings (£m)			
Adjusted earnings per share (pence)			

Centrica External Metrics continued

UK & IRELAND

UK HOME

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Complaints (per 100,000 customers)			
Customer account holdings ('000s)			
Energy supply			
Services			
Total customer account holdings ('000s)			
Installs and on demand jobs ('000s)			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Energy use per residential energy customer account (kWh)			
Cost to serve per Home account (£)			
Adjusted operating costs as a % of gross margin			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

UK BUSINESS

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Complaints (per 100,000 customers)			
Customer account holdings ('000s)			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Adjusted operating costs as a % of gross margin			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

IRELAND

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Complaints (per 100,000 customers)			
Customer account holdings ('000s)			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Energy use per residential energy customer account (kWh)			
Cost to serve per residential energy account (£)			
Adjusted operating costs as a % of gross margin			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

Centrica External Metrics continued

NORTH AMERICA

NORTH AMERICA HOME

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Complaints (per 100,000 customers)			
Customer account holdings ('000s)			
Energy supply			
Services			
Total customer account holdings ('000s)			
Installs and on demand jobs ('000s)			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Energy use per residential energy customer account (kWh)			
Cost to serve per Home account (£)			
Adjusted operating costs as a % of gross margin			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

NORTH AMERICA BUSINESS

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
NPS			
Complaints (per 100,000 customers)			
Customer account holdings ('000s)			
Total customer energy consumption			
Gas (mmth)			
Electricity (GWh)			
Adjusted operating costs as a % of gross margin			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

Centrica External Metrics continued

CONNECTED HOME

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Brand advocacy NPS			
Cumulative hubs installed ('000)			
New products launched			
Active subscriptions ('000)			
Adjusted operating costs as a % of gross margin			
Revenue (£m)			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

DISTRIBUTED ENERGY & POWER

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)			
NPS			
Flexible distributed energy capacity under management (MW)			
Active customers			
Secured revenue (order book) (£m)			
Adjusted operating costs as a % of gross margin			
Revenue (£m)			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

CENTRAL POWER GENERATION

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)			
CCGT reliability			
Power generated (GWh)			
Gas-fired			
Renewables			
Nuclear			
Total power generated (GWh)			
Achieved clean spark spread (£/MWh)			
Achieved power price – renewables (including ROCs) (£/MWh)			
Achieved power price – nuclear (£/MWh)			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

Centrica External Metrics continued

ENERGY MARKETING & TRADING

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

EXPLORATION & PRODUCTION

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)			
Gas production volumes (mmth)			
Europe			
Americas			
Total gas production volumes (mmth)			
Liquids production volumes (mmboe)			
Europe			
Americas			
Total liquids production volumes (mmboe)			
Total production volumes (mmboe)			
Average achieved gas sales prices (p/therm)			
Europe			
Americas			
Average achieved liquid sales prices (£/boe)			
Europe			
Americas			
Lifting and other cash production costs (£/boe)			
Europe			
Americas			
Adjusted operating cash flow (£m)			
Free cash flow (£m)			
Adjusted operating profit (£m)			
Adjusted operating profit after tax (£m)			
Capital expenditure (£m)			

CENTRICA STORAGE

Year ended 31 December	**Year**	Year	Change
Total recordable injury frequency rate (per 200,000 hours worked)			
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)			
Reservoir capacity (bcf)			
Average SBU price (in period) (pence)			
Gross revenue (£m)			
Standard SBUs			
Additional space / other			
Total gross revenue (£m)			
Adjusted operating cash flow (£m)			
Adjusted operating profit (£m)			

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 loss of the Group; and
- the Strategic Report contained in the Annual Report and Accounts, from which this narrative is extracted, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Iain Conn
Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Income Statement

Year ended 31 December	Notes	**2015** Business performance £m	**2015** Exceptional items and certain re-measurements £m	**2015** Results for the year £m	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the year £m
Group revenue	5(b)	**27,971**	**–**	**27,971**	29,408	–	29,408
Cost of sales before exceptional items and certain re-measurements		**(23,734)**	**–**	**(23,734)**	(25,043)	–	(25,043)
Re-measurement of energy contracts	6	**–**	**116**	**116**	–	(1,134)	(1,134)
Cost of sales		**(23,734)**	**116**	**(23,618)**	(25,043)	(1,134)	(26,177)
Gross profit		**4,237**	**116**	**4,353**	4,365	(1,134)	3,231
Operating costs before exceptional items		**(3,039)**	**–**	**(3,039)**	(2,903)	–	(2,903)
Exceptional items – impairments	6	**–**	**(2,268)**	**(2,268)**	–	(1,938)	(1,938)
Exceptional items – onerous provisions	6	**–**	**(90)**	**(90)**	–	–	–
Exceptional items – gains on disposals	6	**–**	**–**	**–**	–	341	341
Operating costs		**(3,039)**	**(2,358)**	**(5,397)**	(2,903)	(1,597)	(4,500)
Share of profits of joint ventures and associates, net of interest and taxation	12(a)	**200**	**(13)**	**187**	106	26	132
Group operating loss	5(c)	**1,398**	**(2,255)**	**(857)**	1,568	(2,705)	(1,137)
Financing costs	7	**(334)**	**–**	**(334)**	(318)	–	(318)
Investment income	7	**55**	**–**	**55**	52	–	52
Net finance cost		**(279)**	**–**	**(279)**	(266)	–	(266)
Loss before taxation		**1,119**	**(2,255)**	**(1,136)**	1,302	(2,705)	(1,403)
Taxation on loss	6, 8	**(286)**	**538**	**252**	(375)	773	398
Loss for the year		**833**	**(1,717)**	**(884)**	927	(1,932)	(1,005)
Attributable to:							
Owners of the parent		**863**	**(1,610)**	**(747)**	903	(1,915)	(1,012)
Non-controlling interests		**(30)**	**(107)**	**(137)**	24	(17)	7

Earnings per ordinary share		**Pence**	Pence
Basic	10	**(14.9)**	(20.2)
Diluted	10	**(14.9)**	(20.2)
Interim dividend paid per ordinary share	9	**3.57**	5.10
Final dividend proposed per ordinary share	9	**8.43**	8.40

The notes on pages 29 to 65 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	**2015 £m**	2014 £m
Loss for the year	**(884)**	(1,005)
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	**5**	4
Net gains/(losses) on cash flow hedges	**20**	(44)
Transferred to income and expense on cash flow hedges	**(12)**	46
Transferred to assets and liabilities on cash flow hedges	**7**	6
Taxation on cash flow hedges	**(6)**	(1)
	9	7
Exchange differences on translation of foreign operations	**(256)**	(165)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	**3**	(15)
	(239)	(169)
Items that will not be recycled to the Group Income Statement:		
Net actuarial losses on defined benefit pension schemes	**(321)**	(83)
Exchange gain on translation of actuarial reserve	**3**	–
Taxation on net actuarial losses on defined benefit pension schemes	**50**	18
	(268)	(65)
Reversal of revaluation reserve, net of taxation and exchange differences	**–**	(10)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(8)**	21
Other comprehensive loss, net of taxation	**(515)**	(223)
Total comprehensive loss for the year	**(1,399)**	(1,228)
Attributable to:		
Owners of the parent	**(1,227)**	(1,234)
Non-controlling interests	**(172)**	6

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 2014	321	931	4,255	(315)	5,192	65	5,257
Total comprehensive (loss)/income	–	–	(1,012)	(222)	(1,234)	6	(1,228)
Employee share schemes	–	–	–	71	71	–	71
Purchase of treasury shares	–	–	(2)	(420)	(422)	–	(422)
Cancellations of shares held in treasury	(10)	–	(549)	559	–	–	–
Investment by non-controlling interests	–	–	–	–	–	283	283
Distribution paid to non-controlling interests	–	–	–	–	–	(18)	(18)
Dividends paid to equity holders (note 9)	–	–	(867)	–	(867)	–	(867)
Taxation on share-based payments	–	–	–	(5)	(5)	–	(5)
31 December 2014	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**

The notes on pages 29 to 65 form part of these Financial Statements.

Group Balance Sheet

31 December	Notes	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment		**4,629**	6,377
Interests in joint ventures and associates	12(d)	**1,839**	2,395
Other intangible assets		**1,775**	1,991
Goodwill		**2,049**	2,609
Deferred tax assets		**497**	354
Trade and other receivables		**61**	87
Derivative financial instruments	13	**440**	313
Retirement benefit assets	14(d)	**91**	185
Securities	11(b)	**233**	263
		11,614	14,574
Current assets			
Trade and other receivables		**4,905**	6,226
Inventories		**395**	555
Derivative financial instruments	13	**936**	617
Current tax assets		**126**	88
Securities	11(b)	**11**	11
Cash and cash equivalents	11(b)	**860**	621
		7,233	8,118
Assets of disposal groups classified as held for sale		**13**	–
		7,246	8,118
Total assets		**18,860**	22,692
Current liabilities			
Derivative financial instruments	13	**(1,460)**	(1,565)
Trade and other payables		**(5,034)**	(5,667)
Current tax liabilities		**(389)**	(348)
Provisions for other liabilities and charges		**(396)**	(395)
Financial liabilities	11(c)	**(475)**	(1,635)
		(7,754)	(9,610)
Liabilities of disposal groups classified as held for sale		**(46)**	–
		(7,800)	(9,610)
Non-current liabilities			
Deferred tax liabilities		**(98)**	(663)
Derivative financial instruments	13	**(508)**	(588)
Trade and other payables		**(70)**	(83)
Provisions for other liabilities and charges		**(2,839)**	(3,203)
Retirement benefit obligations	14(d)	**(210)**	(123)
Financial liabilities	11(c)	**(5,993)**	(5,351)
		(9,718)	(10,011)
Total liabilities		**(17,518)**	(19,621)
Net assets		**1,342**	3,071
Share capital		**317**	311
Share premium		**1,135**	931
Retained earnings		**482**	1,825
Other equity		**(756)**	(332)
Total shareholders' equity		**1,178**	2,735
Non-controlling interests		**164**	336
Total shareholders' equity and non-controlling interests		**1,342**	3,071

The Financial Statements on pages 25 to 65, of which the notes on pages 29 to 65 form part, were approved and authorised for issue by the Board of Directors on 18 February 2016 and were signed below on its behalf by:

Iain Conn
Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Cash Flow Statement

Year ended 31 December	Notes	2015 £m	2014 £m
Group operating loss including share of results of joint ventures and associates		**(857)**	(1,137)
Less share of profit of joint ventures and associates, net of interest and taxation	12(a)	**(187)**	(132)
Group operating loss before share of results of joint ventures and associates		**(1,044)**	(1,269)
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**3,482**	3,288
Profit on disposals		**(14)**	(372)
Decrease in provisions		**(2)**	(37)
Defined benefit pension service cost and contributions		**(131)**	(83)
Employee share scheme costs		**45**	39
Unrealised (gains)/losses arising from re-measurement of energy contracts		**(12)**	1,160
Operating cash flows before movements in working capital		**2,324**	2,726
Decrease in inventories		**138**	4
Decrease/(increase) in trade and other receivables		**769**	(631)
Decrease in trade and other payables		**(604)**	(50)
Operating cash flows before payments relating to taxes, interest and exceptional charges		**2,627**	2,049
Taxes paid		**(349)**	(707)
Payments relating to exceptional charges		**(81)**	(125)
Net cash flow from operating activities		**2,197**	1,217
Purchase of businesses		**(79)**	(131)
Sale of businesses		**8**	658
Purchase of property, plant and equipment and intangible assets	5(f)	**(970)**	(1,456)
Sale of property, plant and equipment and intangible assets		**9**	17
Investments in joint ventures and associates		**(13)**	(26)
Dividends received from joint ventures and associates	12(c)	**180**	138
Repayments of loans to, and disposal of investments in, joint ventures and associates		**190**	109
Interest received		**38**	35
Sale of securities	11(b)	**26**	5
Net cash flow from investing activities		**(611)**	(651)
Issue and surrender of ordinary share capital for share awards		**28**	32
Payments for own shares		**(11)**	(7)
Purchase of treasury shares under share repurchase programme		**–**	(422)
Investment by non-controlling interests		**–**	119
Distribution to non-controlling interests		**–**	(18)
Financing interest paid		**(311)**	(296)
Repayment of borrowings and finance leases	11(b)	**(1,650)**	(518)
Cash received from borrowings, net of linked deposit	11(b)	**1,000**	1,311
Equity dividends paid		**(387)**	(864)
Net cash flow from financing activities		**(1,331)**	(663)
Net increase/(decrease) in cash and cash equivalents		**255**	(97)
Cash and cash equivalents at 1 January		**621**	719
Effect of foreign exchange rate changes		**(16)**	(1)
Cash and cash equivalents at 31 December		**860**	621
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	11(b)	**860**	621

The notes on pages 29 to 65 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 and interpretations, whether these are effective in 2015 or later years, and if and how these are expected to impact the financial position and performance of the Group.

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 2015 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 18 February 2016.

The preliminary results for the year ended 31 December 2015 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 2015 or 31 December 2014. The financial information for the year ended 31 December 2014 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 December 2015 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Basis of preparation

The accounting policies applied in these condensed Financial Statements for the year ended 31 December 2015 are consistent with those of the annual Financial Statements for the year ended 31 December 2014, as described in those Financial Statements, with the exception of standards, amendments and interpretations effective in 2015 and other presentational changes.

(a) Standards, amendments and interpretations effective or adopted in 2015

From 1 January 2015, the limited amendments arising from 'Annual Improvement Project 2011–2013' are applicable, although their first time application does not have a material impact on the consolidated Group Financial Statements.

(b) 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 and remain subject to endorsement by the EU:

- IFRS 9: 'Financial instruments'. Effective from 1 January 2018;
- IFRS 15: 'Revenue from contracts with customers'. The mandatory effective date has been amended from 1 January 2017 to 1 January 2018; and
- IFRS 16: 'Leases'. Effective from 1 January 2019.

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

- IAS 1: 'Presentation of financial statements' related to the disclosure initiative. Effective from 1 January 2016;
- Amendment to IAS 16: 'Property, plant and equipment' and IAS 38: 'Intangible assets' related to the clarification of acceptable methods of depreciation and amortisation. Effective from 1 January 2016;
- Amendment to IAS 19: 'Employee benefits' related to employee contributions to defined benefit plans. Effective from 1 January 2016;
- Amendments to IFRS 11: 'Joint arrangements' related to the acquisition of interests in joint operations. Effective from 1 January 2016;
- Annual Improvement Project 2010–2012. Effective from 1 January 2016; and
- Annual Improvement Project 2012–2014. Effective from 1 January 2016.

The Directors do not anticipate that the application of the Annual Improvement Projects and the Amendments to IAS 1, IAS 16, IAS 19 and IAS 38 will have a material impact on the amounts reported and disclosed.

The amendment to IFRS 11 in relation to acquisitions of interests in joint operations, which will be effective in the 2016 consolidated Group Financial Statements, 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 of acquisitions prior to this date will not be restated.

In respect of IFRS 9 and IFRS 15, management has started assessing the impact on the Group's consolidated Financial Statements. Projects to oversee the implementation of these standards have commenced, however, at this stage it has not been practicable to quantify the full effect that these standards will have on the Group's consolidated Financial Statements upon transition.

Management's preliminary assessment is that IFRS 9 will not have a material impact on the Group's consolidated Financial Statements. The preliminary assessment indicates there will be limited changes in 'classification and measurement' of financial instruments given the nature of the Group's financial instruments. Further detailed analysis across business units and geographies is in progress to determine the impact of the change from the 'incurred credit loss' model to the 'expected credit loss' model for 'impairment' and to determine whether additional items will be hedge accounted as a result of the simplifications to 'hedge accounting' in the standard.

Notes to the Financial Statements

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

In relation to IFRS 15, management has identified a number of areas where further analysis is required. The areas of potential impact across International Downstream, International Upstream and Storage business segments include:

- the identification of performance obligations within our contractual arrangements with customers for example 'standing ready type obligations' on energy supply contracts versus rights granted ('options') to customers to be provided goods or services (energy) in the future (for example buyer's nominations rights related to Upstream sales contracts or residential and business customers rights to use energy in Downstream energy supply contracts);
- the assessment of when these arrangements create enforceable rights and obligations between the parties for example whether these arise at inception or at a later stage upon occurrence of contingent events for example when nominations are made (by the buyer or seller) or when residential and business customers use energy under energy supply contracts (especially in open-ended arrangements);
- the implications of bundled goods and services (for example where a customer is supplied energy at the same time as being party to a service arrangement) and of offering incentives (for example free goods) in light of conclusions on performance obligations and enforceable rights and obligations above; and
- the assessment of the transaction price allocated to performance obligations (especially variable consideration) for long-term Downstream energy supply contracts or Upstream 'life of field contracts' particularly where the volume and the price are uncertain.

It is not yet clear whether a change in the profile of revenue recognition will arise as a result of the application of the new standard. All business units have started reviewing their contractual arrangements to identify any further impacts of application from both a financial and accounting policy perspective.

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's consolidated Financial Statements although, given the timing of the issue of this standard, at this stage it has not been practicable to quantify the full effect this standard will have on the Group's consolidated Financial Statements upon transition. IFRS 16, with certain exceptions, requires the Group, where the Group is a lessee, to recognise right of use assets and lease liabilities for all leases, there no longer being a distinction between operating and finance leases for lessees. The definition of a lease has also been modified which may change those contracts the Group accounts for as leases. Finally, the profile of the Group Income Statement impact for items previously accounted for as operating leases is likely to change for the Group, where the Group is a lessee, with a higher periodic expense in the earlier periods of a lease. A project to oversee the implementation of this standard will be set up in due course.

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.

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share 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 the results from joint ventures and associates before interest and taxation.

Note 5 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 5 also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory result 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.

Notes to the Financial Statements

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

Restatement of adjusted profit measures

During the period, the Directors have amended the definition of the adjusted profit measures. Previously, the Directors had identified two Strategic Investments, the 2009 acquisitions of Venture Production plc; the operating results of which are included in the 'Centrica Energy – Gas' segment, and the acquisition of a 20% interest in Lake Acquisitions Limited (Nuclear) which owns the former British Energy Group nuclear power station fleet now operated by EDF; the results of which are included within the 'Centrica Energy – Power' segment. The depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on acquisition of these Strategic Investments was excluded from adjusted operating profit and, net of taxation, from adjusted earnings. Following the conclusion of the strategic review and the future role of the Exploration and Production (E&P) and Nuclear businesses, the Directors have decided to remove the adjustment for depreciation of fair value uplifts of PP&E acquired on Strategic Investments in the definition of adjusted operating profit and adjusted earnings.

Accordingly, 2014 results have been restated and the impact is summarised in the table below. This table also quantifies the impact on current year results.

	Notes impacted	2015 £m	2014 £m
Centrica Energy – Gas adjusted operating profit for the year ended 31 December	5(c)	**5**	(31)
Centrica Energy – Power adjusted operating profit for the year ended 31 December	5(c)	**(57)**	(58)
Centrica Energy – Gas adjusted operating profit after taxation for the year ended 31 December	5(c)	**1**	(12)
Centrica Energy – Power adjusted operating profit after taxation for the year ended 31 December	5(c)	**(32)**	(47)
Centrica Energy – Power share of results of joint ventures and associates before interest and taxation for the year ended 31 December	5(d)	**(57)**	(58)
Centrica Energy – Gas depreciation and impairment of property, plant and equipment for the year ended 31 December	5(d)	**5**	(31)
Share of adjusted results of joint ventures and associates for the year ended 31 December	12(b)	**(57)**	(58)
Adjusted earnings for the year ended 31 December	10	**(31)**	(59)
Centrica Energy – Gas adjusted operating profit for the six months ended 31 December	21(b)	**6**	(14)
Centrica Energy – Power adjusted operating profit for the six months ended 31 December	21(b)	**(28)**	(30)
Centrica Energy – Gas adjusted operating profit after taxation for the six months ended 31 December	21(b)	**2**	(5)
Centrica Energy – Power adjusted operating profit after taxation for the six months ended 31 December	21(b)	**(9)**	(24)
Adjusted earnings for the six months ended 31 December	23	**(7)**	(29)
Earnings per ordinary share		**Pence**	Pence
Earnings – adjusted basic for the year ended 31 December	10	**(0.6)**	(1.2)
Earnings – adjusted diluted for the year ended 31 December	10	**(0.6)**	(1.2)
Earnings – adjusted basic for the six months ended 31 December	23	**(0.1)**	(0.6)
Earnings – adjusted diluted for the six months ended 31 December	23	**(0.1)**	(0.6)

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: 'Financial instruments: recognition and measurement' 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).

Exceptional items are those items that are of a non-recurring nature and, 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, business restructurings, significant onerous contract charges and asset write-downs/impairments.

Notes to the Financial Statements

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 and adjusted earnings per share 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 Group's Financial Statements:

Wind farm disposals

In recent years, the Group has partially disposed of some of its wind farm companies by selling 50% of the equity voting capital (and 50% of the shareholder loans where relevant) in, for example, GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited.

Associated with some of these disposals, the Group contracted to purchase a large percentage of the output produced by the wind farms under arm's length, 15-year off-take agreements. The Group also contracted to provide management, operational and transitional support services to these companies as directed by their boards (and shareholders). Shareholders' agreements were put in place which include a number of reserved matters and provide for joint management of the major decisions of the companies.

Accordingly, the Directors have judged that the partial disposals of equity interests constituted a loss of control as the Group was no longer able to exercise control over the relevant activities or operating and financial policies of these companies. Therefore, the remaining investments are equity accounted as investments in joint ventures (see note 12) in accordance with IFRS 11 and IAS 28 (Revised (2011)): 'Investments in joint ventures and associates'.

The Directors have also judged that the 15-year off-take agreements are not leasing arrangements. This is because the Group is not purchasing substantially all of the economic output of the wind farms. These contracts are considered to be outside the scope of IAS 39 apart from the embedded derivatives arising from the pricing terms which are marked to market separately.

Leases – third-party power station tolling arrangements

The Group has two long-term power station tolling contracts considered to be leases: (i) Spalding in the UK and (ii) Rijnmond in the Netherlands. The arrangements provide 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. The Directors have 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.

Details of the interest charges and finance lease payable are included in notes 7 and 11 respectively.

The Rijnmond contract runs until 2030 and Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have 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. Details of the operating lease commitments are included in note 16.

Business combinations and asset acquisitions

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: AlertMe and Panoramic Power. These acquisitions have been accounted for as business combinations as set out in note 15.

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 oil and gas 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.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 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.

During 2015 as part of the smart meter roll-out, the Group has renewed meter rental arrangements with third-parties. The Group has 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.

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 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 which 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 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 66.

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. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants).

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

Upstream gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives taking into account those assumptions that market participants would take into account when assessing fair value. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs.

Further details of the assumptions used in determining the recoverable amounts and the impairments booked during the year 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 impairments 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.

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 impairments booked during the year 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 detail on impairments arising and the assumptions used in determining the recoverable amounts is 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. Balances are written off when recoverability is assessed as being remote. 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 British Gas 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.

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, on which further detail is 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:

Rijnmond power station operating lease

The onerous provision is calculated by taking the unavoidable costs that will be incurred under the contract and deducting any estimated revenues.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Spalding power station onerous contract provision

During 2015, a new onerous contract provision has been 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, less any estimated revenue.

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.

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 2014 Annual Report and Accounts. Throughout the year, the Group continued to develop the integrated approach to our risk and assurance activities. In particular, the following improvements were implemented:

- full integration of Bord Gáis Energy with the Group's risk management processes;
- established the Safety, Health, Environment, Security and Ethics Committee (SHESEC) to incorporate the scope of the former Corporate Responsibility Committee as well as risks related to safety, health, environment and security;
- comprehensive Risk Universe approved and aligned to the new board-level governance structure to ensure oversight of key risks; and
- activities to ensure compliance with the relevant sections of the Combined Code relating to Risk Management and Internal Control including risk assessment and financial modelling work as part of the viability statement.

Financial risk management is overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. 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 the US and Europe, there is a continued increase in trading over exchanges or margined contracts, this helps to reduce counterparty credit risk, but carries increased liquidity requirements. The Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with and without margining 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 2015, the Group had undrawn committed credit facilities of £4,379 million (2014: £3,751 million) and £637 million (2014: £374 million) of unrestricted cash and cash equivalents. 136% (2014: 112%) 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 12.0 years (2014: 12.8 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.

In the preparation of the 2015 Financial Statements, the Group has further evaluated its liquidity position taking into account any limitation on borrowings arising from the Company's Articles of Association. The analysis includes cash resources available at the time of signing the Financial Statements and takes into account the remote scenario of restrictions continuing after the Company's AGM. Refer to note 11(a) for more details.

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.

Notes to the Financial Statements

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.

(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
International Downstream	
British Gas:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK.
Residential services	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.
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
Direct Energy:	
Residential energy supply	The supply of gas and electricity to residential customers in North America.
Residential and business services	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.
Business energy supply	(i) The supply of gas, electricity and energy management solutions to commercial and industrial customers in North America; (ii) power generation; and (iii) procurement and trading activities in the North American wholesale energy markets.
Bord Gáis Energy	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers; and (ii) power generation in the Republic of Ireland.
International Upstream	
Centrica Energy:	
Gas	Production, processing, trading and optimisation of gas and oil and the development of new fields to grow reserves.
Power	Generation, trading and optimisation of power from thermal, nuclear and wind sources.
Centrica Storage	Gas storage in the UK.

Notes to the Financial Statements

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 £m** (2015)	**Less inter-segment revenue £m** (2015)	**Group revenue £m** (2015)	Gross segment revenue £m (2014)	Less inter-segment revenue £m (2014)	Group revenue £m (2014)
International Downstream						
Residential energy supply	**8,249**	**(7)**	**8,242**	8,328	(3)	8,325
Residential services	**1,734**	**(136)**	**1,598**	1,658	(156)	1,502
Business energy supply and services	**2,463**	**–**	**2,463**	2,981	(47)	2,934
British Gas	**12,446**	**(143)**	**12,303**	12,967	(206)	12,761
Residential energy supply	**2,175**	**–**	**2,175**	2,571	–	2,571
Residential and business services	**480**	**–**	**480**	523	–	523
Business energy supply	**7,932**	**–**	**7,932**	8,744	(6)	8,738
Direct Energy	**10,587**	**–**	**10,587**	11,838	(6)	11,832
Bord Gáis Energy	**733**	**–**	**733**	391	–	391
International Upstream						
Gas	**3,525**	**(218)**	**3,307**	3,644	(326)	3,318
Power	**1,190**	**(255)**	**935**	1,347	(343)	1,004
Centrica Energy	**4,715**	**(473)**	**4,242**	4,991	(669)	4,322
Centrica Storage	**156**	**(50)**	**106**	149	(47)	102
	28,637	**(666)**	**27,971**	30,336	(928)	29,408

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) **2015 £m**	2014 £m	Non-current assets (based on location of assets) (i) **2015 £m**	2014 £m
UK	**15,654**	15,880	**6,281**	8,132
North America	**10,728**	11,996	**2,827**	3,421
Norway	**297**	478	**1,005**	1,564
Rest of the world	**1,292**	1,054	**179**	255
	27,971	29,408	**10,292**	13,372

(i) Non-current assets include goodwill, other intangible assets, PP&E and interests in joint ventures and associates.

Notes to the Financial Statements

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) 2015 £m	Adjusted operating profit/(loss) 2014 (restated) (i) £m	Adjusted operating profit/(loss) after taxation (ii) 2015 £m	Adjusted operating profit/(loss) after taxation (ii) 2014 (restated) (i) £m
International Downstream				
Residential energy supply	**574**	439	**461**	344
Residential services	**257**	270	**207**	212
Business energy supply and services	**(22)**	114	**(18)**	91
British Gas	**809**	823	**650**	647
Residential energy supply	**111**	90	**58**	62
Residential and business services	**(34)**	28	**(22)**	20
Business energy supply	**251**	32	**151**	17
Direct Energy	**328**	150	**187**	99
Bord Gáis Energy	**30**	7	**24**	3
International Upstream				
Gas	**153**	575	**45**	290
Power (iii)	**102**	73	**95**	111
Centrica Energy	**255**	648	**140**	401
Centrica Storage	**37**	29	**25**	21
	1,459	1,657	**1,026**	1,171
Share of joint ventures'/associates' interest and taxation	**(61)**	(89)		
Operating profit before exceptional items and certain re-measurements	**1,398**	1,568		
Exceptional items (note 6)	**(2,358)**	(1,597)		
Certain re-measurements included within gross profit (note 6)	**116**	(1,134)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	**(13)**	26		
Operating loss after exceptional items and certain re-measurements	**(857)**	(1,137)		

Year ended 31 December	2015 £m	2014 (restated) (i) £m
Adjusted operating profit after taxation (ii)	**1,026**	1,171
Impact of changes to UK corporation tax rates (note 8) (iv)	**46**	(2)
Corporate and other taxation, and interest (net of taxation) (v)	**(239)**	(242)
Business performance profit for the year	**833**	927
Exceptional items and certain re-measurements (net of taxation) (note 6)	**(1,717)**	(1,932)
Statutory loss for the year	**(884)**	(1,005)

(i) Adjusted operating profit for 2014 has been restated following the Board's decision to include the depreciation of fair value uplifts of fixed assets acquired on Strategic Investments in the definition of adjusted operating profit. See note 2 for further information.
(ii) Segment operating profit after taxation includes a loss of £27 million (2014: profit of £28 million) attributable to non-controlling interests.
(iii) Power adjusted operating profit after taxation for 2014 includes a one-off deferred tax benefit of £44 million following a legal entity reorganisation.
(iv) Includes £19 million (2014: nil) relating to equity accounted interests.
(v) 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 2015 £m	2014 (restated) (i) £m	Depreciation and impairments of property, plant and equipment 2015 £m	2014 (restated) (i) £m	Amortisation, write-downs and impairments of intangibles 2015 £m	2014 £m
International Downstream						
Residential energy supply	**(1)**	(1)	**(26)**	(17)	**(83)**	(57)
Residential services	**–**	–	**(26)**	(27)	**(9)**	(7)
Business energy supply and services	**–**	–	**(3)**	(2)	**(11)**	(8)
British Gas	**(1)**	(1)	**(55)**	(46)	**(103)**	(72)
Residential energy supply	**–**	–	**(2)**	(1)	**(34)**	(23)
Residential and business services	**–**	–	**(3)**	(3)	**(8)**	(7)
Business energy supply	**–**	–	**(1)**	(1)	**(47)**	(77)
Direct Energy	**–**	–	**(6)**	(5)	**(89)**	(107)
Bord Gáis Energy	**–**	–	**(1)**	(1)	**(6)**	(3)
International Upstream						
Gas	**–**	–	**(753)**	(840)	**(92)**	(154)
Power	**262**	196	**(34)**	(55)	**(1)**	(2)
Centrica Energy	**262**	196	**(787)**	(895)	**(93)**	(156)
Centrica Storage	**–**	–	**(33)**	(34)	**(1)**	–
Other (ii)	**–**	–	**(11)**	(12)	**(13)**	(15)
	261	195	**(893)**	(993)	**(305)**	(353)

(i) Both the share of results of joint ventures and associates and the depreciation of property, plant and equipment have been restated for 2014. See note 2 for further information.
(ii) The Other segment includes corporate functions, subsequently recharged.

Impairment of property, plant and equipment

During 2015, a £4 million (2014: £34 million) impairment charge was recognised in the 'Centrica Energy – Gas' segment within business performance and a £3 million (2014: nil) impairment charge was recognised in the 'Centrica Energy – Power' segment within business performance.

Write-downs of intangible assets

During 2015, £71 million (2014: £135 million) of write-downs relating to exploration and evaluation assets were recognised in the 'Centrica Energy – Gas' segment within business performance.

Notes to the Financial Statements

5. SEGMENTAL ANALYSIS

(e) Average capital employed

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments.

Year ended 31 December	2015 Total average capital employed £m	2015 Pre-productive capital employed £m	2015 Productive capital employed £m	2014 Total average capital employed £m	2014 Pre-productive capital employed £m	2014 Productive capital employed £m
International Downstream						
Residential energy supply	**245**	**–**	**245**	(7)	–	(7)
Residential services	**231**	**–**	**231**	173	–	173
Business energy supply and services	**736**	**–**	**736**	428	–	428
British Gas	**1,212**	**–**	**1,212**	594	–	594
Residential energy supply	**990**	**–**	**990**	982	–	982
Residential and business services	**262**	**–**	**262**	333	–	333
Business energy supply	**1,121**	**–**	**1,121**	1,268	–	1,268
Direct Energy	**2,373**	**–**	**2,373**	2,583	–	2,583
Bord Gáis Energy	**110**	**–**	**110**	54	–	54
International Upstream						
Gas [(i)]	**3,071**	**(1,428)**	**1,643**	3,761	(1,326)	2,435
Power	**2,556**	**–**	**2,556**	3,490	(24)	3,466
Centrica Energy	**5,627**	**(1,428)**	**4,199**	7,251	(1,350)	5,901
Centrica Storage	**218**	**–**	**218**	256	–	256
Total average segmental capital employed	**9,540**	**(1,428)**	**8,112**	10,738	(1,350)	9,388

(i) Capital employed includes £292 million (2014: £133 million) attributable to non-controlling interests.

Reconciliation of total average segmental capital employed to net assets in the Group Balance Sheet

Year ended 31 December	2015 £m	2014 £m
Total average segmental capital employed	**9,540**	10,738
Add back/(deduct):		
Average intra-group, margin cash and cash balances	**850**	668
Effect of averaging	**(2,137)**	(336)
Total segmental net operating assets at 31 December	**8,253**	11,070
(Deduct)/add back:		
Bank and other borrowings, finance lease obligations, securities and treasury derivatives	**(6,119)**	(6,641)
Certain derivative financial instruments including balances held by joint ventures/associates	**(1,212)**	(1,302)
Corporate assets/(liabilities)	**539**	(118)
Net retirement benefit (liability)/asset	**(119)**	62
Net assets in Group Balance Sheet	**1,342**	3,071

Notes to the Financial Statements

5. SEGMENTAL ANALYSIS

(f) 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 2015 £m	2014 £m	Capital expenditure on intangible assets other than goodwill 2015 £m	2014 £m
International Downstream				
Residential energy supply	**22**	28	**367**	348
Residential services	**57**	33	**11**	13
Business energy supply and services	**1**	1	**170**	166
British Gas	**80**	62	**548**	527
Residential energy supply	**–**	24	**10**	24
Residential and business services	**8**	4	**5**	–
Business energy supply	**7**	3	**153**	84
Direct Energy	**15**	31	**168**	108
Bord Gáis Energy	**2**	2	**5**	3
International Upstream				
Gas	**615**	923	**93**	217
Power	**11**	62	**18**	67
Centrica Energy	**626**	985	**111**	284
Centrica Storage	**32**	21	**1**	2
Other (i)	**15**	11	**20**	15
Capital expenditure	**770**	1,112	**853**	939
Capitalised borrowing costs	**(46)**	(45)	**(2)**	(5)
Movements in payables and prepayments related to capital expenditure	**7**	3	**5**	(1)
Purchases of emissions allowances and renewable obligations certificates	**–**	–	**(617)**	(547)
Net cash outflow (ii)	**731**	1,070	**239**	386

(i) The Other segment relates to corporate assets.
(ii) The £239 million (2014: £386 million) purchase of intangible assets includes £81 million (2014: £201 million) relating to exploration and evaluation of oil and gas assets.

Notes to the Financial Statements

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

Exceptional items are those items that are of a non-recurring nature and, 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, business restructurings, significant onerous contract charges and asset write-downs.

(a) Exceptional items

Year ended 31 December	2015 £m	2014 £m
Impairment of Centrica Energy exploration and production assets (i)	**(1,865)**	(1,189)
Impairment of UK power generation assets and provisions for onerous power procurement contracts (ii)	**(121)**	(535)
Impairment of Nuclear investment (iii)	**(372)**	(214)
Gain on disposal of Texas gas-fired power stations	**–**	219
Gain on disposal of Ontario home services business	**–**	122
Exceptional items included within Group operating loss	**(2,358)**	(1,597)
Taxation on exceptional items (note 8)	**477**	436
Impairment of Centrica Energy exploration and production deferred tax assets (note 8) (iv)	**(81)**	–
Effect of change in UK tax rates (note 8) (v)	**116**	–
Net exceptional items after taxation	**(1,846)**	(1,161)

(i) Impairment of Centrica Energy exploration and production assets has been recognised predominantly due to declining gas and oil prices. The Group recognised a pre-tax impairment charge of £1,865 million (post-tax charge £1,396 million) in the 'Centrica Energy – Gas' segment, which included a pre-tax impairment charge of £42 million (post-tax charge £38 million) on the Trinidad and Tobago gas assets, a pre-tax impairment charge of £1,514 million (post-tax charge £1,082 million) on UK, Dutch and Norwegian gas and oil assets (including £510 million of goodwill) and a pre-tax impairment charge of £309 million (post-tax charge £276 million) on Canadian upstream assets (including £99 million of goodwill). Further details on how the recoverable amounts of fields are calculated on a fair value less cost of disposal (FVLCD) basis are provided below. The impairment charge for UK, Dutch and Norwegian gas assets is net of reversals of previous impairments totalling £16 million (post-tax credit £7 million) following revisions to decommissioning estimates.

(ii) A pre-tax impairment charge of £31 million (post-tax charge of £31 million) has been recognised in the 'Centrica Energy – Power' segment in relation to its finance leased UK gas-fired power station, predominantly due to declining forecast capacity market auction prices and clean spark spread prices. A further £70 million charge (post-tax charge of £70 million) was recognised as an onerous power procurement contract for further unavoidable costs under this tolling contract for this UK gas-fired power station. A further onerous contract provision charge for the Direct Energy wind power procurement arrangement of £20 million (post-tax charge of £12 million) was also recognised. Further details on how the recoverable amount of the assets is calculated on a VIU basis are provided below.

(iii) The Group recognised an impairment charge of £372 million (post-tax charge of £372 million) on its Nuclear investment within the 'Centrica Energy – Power' segment due to declining forecast power prices and capacity market auction prices. Further details on how the recoverable amount of the investment is calculated on a FVLCD basis are provided below.

(iv) The Group recognised a re-measurement of £81 million on deferred tax assets related to Investment Allowances for its exploration and production assets that are no longer expected to be recoverable against future taxable profits due to declining gas and oil prices.

(v) During the period, the UK supplementary charge was reduced from 32% to 20%, with effect from 1 January 2015 and the petroleum revenue tax (PRT) rate was reduced from 50% to 35% with effect from 1 January 2016. These changes have been substantively enacted by the reporting date and the reduction in net deferred tax liabilities has been recognised immediately as an exceptional tax credit.

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	2015 £m	2014 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net gains/(losses) arising on delivery of contracts	**973**	(63)
Net losses arising on market price movements and new contracts	**(857)**	(1,071)
Net re-measurements included within gross profit	**116**	(1,134)
Net (losses)/gains arising on re-measurement of associates' energy contracts (net of taxation)	**(13)**	26
Net re-measurements included within Group operating loss	**103**	(1,108)
Taxation on certain re-measurements (note 8) (i)	**26**	337
Net re-measurements after taxation	**129**	(771)

(i) Includes £20 million gain (2014: nil) 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 significant decreases in commodity prices, net losses arising on market price movements and new contracts of £857 million (2014: £1,071 million) have been recorded.

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets) annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Exploration assets and interests in joint ventures and associates 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 VIU and FVLCD.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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 Centrica Energy – Upstream 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 Upstream 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

Centrica Energy – Gas – Upstream gas and oil production

An impairment charge of £1,865 million (2014: £1,189 million) has been recorded within exceptional items for Centrica Energy exploration and production assets. The associated recoverable amounts (net of decommissioning costs) of £1,049 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, 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 three years are based on the Group's Board-approved three-year 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% (2014: 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 Centrica Energy – Gas 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 reverse £327 million (2014: £142 million) of post-tax impairment charges of the underlying exploration and production assets. A reduction of 10% would give rise to further post-tax impairments of the underlying exploration and production assets of £245 million (2014: £254 million) and a further post-tax impairment of goodwill of £238 million (2014: £251 million) in the UK/Norway/Netherlands CGU.

Centrica Energy – Power – Nuclear

An impairment charge of £372 million (2014: £214 million) has been recorded within exceptional items 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, prices are determined based on internal model inputs. Post-tax cash flows used in the FVLCD calculations for the first three years are based on the Group's Board-approved three-year 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% (2014: 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 the reversal of the impairment of £372 million (2014: £214 million) recorded at the year end and would potentially reverse £81 million of the prior year impairment (2014: provide headroom of £310 million). A reduction of 10% would give rise to a further impairment charge of £436 million (2014: £522 million).

Storage

No impairment charge has been recognised for the Group's gas storage assets (2014: nil). However, there is limited headroom on the current impairment test. The impairment test is 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 at the year end to vary the gas spreads by +/-10%. An increase in gas spreads of 10%, assuming all other assumptions remain constant, increases the headroom to £116 million. A reduction of 10% would give rise to an impairment of £76 million.

Notes to the Financial Statements

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

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 significant impairment in certain adverse scenarios. The current value of the Group's gas storage fixed assets is £511 million (£260 million, net of the decommissioning provision and deferred taxation).

VIU discount rate and cash-flow assumptions

Centrica Energy – Power – Upstream Power

An impairment charge of £31 million (2014: £535 million) has been recorded within exceptional items for the UK gas-fired power stations with a further £70 million charge for an onerous power procurement contract provision. Since the unavoidable costs under this tolling contract exceed the recoverable amounts, the remaining fixed asset has been impaired. In 2014, the recoverable amounts were determined using VIU calculations, with future cash flows discounted using a pre-tax nominal discount rate of 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, prices were determined based on internal model inputs.

Cash outflows for operating and capital expenditure were based, for the first three years, on the Group's Board-approved three-year business plans and, thereafter, were based on long-term production and cash flow forecasts. The calculation of the related onerous power station tolling contract is based on the same assumptions using a pre-tax nominal discount rate of 2.0%.

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	Financing costs £m	Investment income £m	2015 Total £m	Financing costs £m	Investment income £m	2014 Total £m
Cost of servicing net debt						
Interest income	–	50	50	–	46	46
Interest cost on bonds, bank loans and overdrafts (i)	(289)	–	(289)	(257)	–	(257)
Interest cost on finance leases	(15)	–	(15)	(16)	–	(16)
	(304)	50	(254)	(273)	46	(227)
Net losses on revaluation (ii)	(2)	–	(2)	(14)	–	(14)
Notional interest arising from discounting and other interest	(76)	5	(71)	(81)	6	(75)
	(382)	55	(327)	(368)	52	(316)
Capitalised borrowing costs (iii)	48	–	48	50	–	50
(Cost)/income	**(334)**	**55**	**(279)**	(318)	52	(266)

(i) During 2015 the Group increased its outstanding bond debt principal by €750 million and £450 million, and decreased it by ¥30 billion, €100 million, $70 million and £51 million. See note 11(c).

(ii) 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.

(iii) Borrowing costs have been capitalised using an average rate of 4.2% (2014: 4.0%). Capitalised interest has attracted tax deductions totalling £14 million (2014: £13 million), with deferred tax liabilities being set up for the same amounts.

Notes to the Financial Statements

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 taxation on the Group's share of 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	Business performance £m	Exceptional items and certain re-measurements £m	2015 Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	2014 Results for the year £m
Current tax						
UK corporation tax	**(233)**	**(75)**	**(308)**	(186)	–	(186)
UK petroleum revenue tax	**(30)**	**–**	**(30)**	(53)	–	(53)
Non-UK tax [i]	**(206)**	**–**	**(206)**	(234)	(130)	(364)
Adjustments in respect of prior years – UK	**198**	**–**	**198**	86	–	86
Adjustments in respect of prior years – non-UK	**(24)**	**–**	**(24)**	2	–	2
Total current tax	**(295)**	**(75)**	**(370)**	(385)	(130)	(515)
Deferred tax						
Origination and reversal of temporary differences – UK	**91**	**274**	**365**	109	538	647
UK petroleum revenue tax	**46**	**11**	**57**	(7)	8	1
Origination and reversal of temporary differences – non-UK	**24**	**192**	**216**	(6)	374	368
Change in tax rates [ii]	**27**	**136**	**163**	(2)	(17)	(19)
Adjustments in respect of prior years – UK	**(169)**	**–**	**(169)**	(72)	–	(72)
Adjustments in respect of prior years – non-UK	**(10)**	**–**	**(10)**	(12)	–	(12)
Total deferred tax	**9**	**613**	**622**	10	903	913
Total tax on loss [iii]	**(286)**	**538**	**252**	(375)	773	398

(i) Non-UK tax on exceptional items and certain re-measurements arose on the gains on disposal of the Texas gas-fired power stations and Ontario home services business in 2014.
(ii) During the period, the UK upstream Supplementary Charge was reduced from 32% to 20% with effect from 1 January 2015 and UK petroleum revenue tax from 50% to 35% with effect from 1 January 2016. The consequential reduction in net deferred tax liabilities has been recognised within exceptional items, and includes a petroleum revenue tax charge of £33 million (2014: nil).
(iii) Total tax on loss excludes taxation on the Group's share of profits of joint ventures and associates.

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 from 1 April 2015 was 20% (2014: 21%). Upstream oil and gas production activities are taxed at a UK corporation tax rate of 30% (2014: 30%) plus a supplementary charge of 20% (2014: 32%) to give an overall rate of 50% (2014: 62%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 50% (2014: 50%) which is deductible against corporation tax, giving an overall effective rate of 75% (2014: 81%). Norwegian upstream profits are taxed at the standard rate of 27% (2014: 27%) plus a special tax of 51% (2014: 51%) resulting in an aggregate tax rate of 78% (2014: 78%). Profits earned in the US are taxed at a Federal rate of 35% (2014: 35%) together with state taxes at various rates dependent on the state. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

On 26 October 2015, the UK Government substantively enacted Finance (No.2) Act 2015 which included reductions in the main UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. At 31 December 2015, the relevant UK deferred tax assets and liabilities included in these Financial Statements were based on the reduced rates having regard to their reversal profiles.

On 26 March 2015, the UK Government enacted Finance Act 2015 which included a reduction in the PRT rate to 35% from 1 January 2016. Deferred PRT assets and liabilities were based on the reduced rate.

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	Pence per share	2015 Date of payment	£m	Pence per share	2014 Date of payment
Prior year final dividend	**418**	**8.40**	**25 Jun 2015**	610	12.08	11 Jun 2014
Interim dividend	**180**	**3.57**	**26 Nov 2015**	257	5.10	12 Nov 2014
	598			867		

The Directors propose a final dividend of 8.43 pence per ordinary share (totalling £427 million) for the year ended 31 December 2015. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 18 April 2016 and, subject to approval, will be paid on 23 June 2016 to those shareholders registered on 13 May 2016.

Notes to the Financial Statements

9. DIVIDENDS

On 19 February 2015, the Company announced its intention to offer a scrip dividend alternative to its shareholders commencing with the final 2014 dividend for the year ended 31 December 2014.

£176 million of the £418 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 £2.57 per share resulting in the issue of 68 million new shares and £171 million being credited to the share premium account.

Similarly £34 million of the £180 million interim dividend was taken as a scrip dividend. The market value per share at 26 November 2015 was £2.28 resulting in the issue of 15 million new shares and £33 million of share premium.

Despite the consolidated Group's retained earnings being £482 million, the Group still 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.

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 loss per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the year of £747 million (2014: £1,012 million loss) by the weighted average number of ordinary shares in issue during the year of 5,011 million (2014: 5,022 million). The number of shares excludes 72 million ordinary shares (2014: 82 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 2014, the Group purchased 132.1 million ordinary shares of 6¹⁴⁄₈₁ pence each. These shares represented 2.6% of the called up share capital as at 31 December 2014 and were purchased at an average price of £3.18 per share for a total consideration including expenses of £422 million. These shares were purchased as part of the £420 million share repurchase programme announced on 18 December 2013; they are held as treasury shares and are deducted from equity unless they are cancelled. No such shares were purchased in 2015.

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 loss for either 2015 or 2014, 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	**2015 Million shares**	2014 Million shares
Weighted average number of shares – basic	**5,011**	5,022
Dilutive impact of share-based payment schemes (i)	**38**	27
Weighted average number of shares – diluted	**5,049**	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 and 2014.

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	**2015 £m**	**2015 Pence per ordinary share**	2014 (restated) (i) £m	2014 (restated) (i) Pence per ordinary share
Loss – basic	**(747)**	**(14.9)**	(1,012)	(20.2)
Net exceptional items after taxation (notes 2 and 6) (ii)	**1,739**	**34.7**	1,144	22.8
Certain re-measurement (gains)/losses after taxation (notes 2 and 6)	**(129)**	**(2.6)**	771	15.4
Earnings – adjusted basic (i)	**863**	**17.2**	903	18.0
Loss – diluted	**(747)**	**(14.9)**	(1,012)	(20.2)
Earnings – adjusted diluted (i)	**863**	**17.1**	903	17.9

(i) Adjusted basic and adjusted diluted earnings and adjusted basic and adjusted diluted EPS have been restated; refer to note 2.
(ii) Net exceptional loss after taxation of £1,846 million (2014: £1,161 million loss) is reduced by £107 million (2014: £17 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	2015 £m	2014 £m
Net debt	**4,747**	5,196
Equity	**1,178**	2,735
Capital	**5,925**	7,931

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. At 31 December 2015, the ratio of the Group's net debt to adjusted EBITDA was 2.0 (2014: 1.8). Adjusted EBITDA to gross interest expense for the year ended 31 December 2015 was 7.2 (2014: 8.8).

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2015 (and 2014).

The Company's Articles of Association limit the Group's borrowings to the greater of £5.0 billion and three times adjusted capital and reserves. At the year end, the Group has undertaken impairment tests on its long-lived assets and, predominantly as a result of significant adverse commodity price movements, has recognised asset impairments of £2.3 billion. These impairments are the primary driver of the reduction in the Group's adjusted capital and reserves as defined by the Company's Articles of Association to £1.2 billion (2014: £2.7 billion), and will consequently reduce the Group's borrowings limit under the Company's Articles of Association to £5.0 billion (2014: £8.2 billion) from the date of audit of these Financial Statements until shareholders approve the suspension or raising of that limit, which will be sought at the Annual General Meeting on 18 April 2016. This restriction has been taken into account when the Directors have considered the Group's ongoing ability to meet its obligations as they fall due. The Group funds its long-term debt requirements through issuing bonds in capital markets and entering into bank debt. Short-term debt requirements are met primarily through the issuance of commercial paper. The Group maintains substantial committed facilities and uses these to provide liquidity for general corporate purposes, including short-term business requirements and back-up for commercial paper.

Notes to the Financial Statements

11. SOURCES OF FINANCE

(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 (i) £m	Cash posted/ (received) as collateral (ii) £m	Current and non-current securities (iii) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (iv) £m	Derivatives £m	Net debt £m
1 January 2014	719	107	211	(6,031)	52	(4,942)
Cash inflow from sale of securities	5	–	(5)	–	–	–
Cash inflow from additional borrowings (iv)	1,311	–	–	(1,311)	–	–
Cash outflow from payment of capital element of finance leases	(32)	–	–	32	–	–
Cash outflow from repayment of borrowings	(486)	–	–	486	–	–
Remaining cash outflow and movement in cash posted/received under margin and collateral agreements (v)	(895)	640	–	–	–	(255)
Revaluation	–	–	8	(61)	21	(32)
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(9)	16	7
Exchange adjustments	(1)	29	1	(62)	–	(33)
Other non-cash movements (vi)	–	–	59	–	–	59
31 December 2014	621	776	274	(6,956)	89	(5,196)
Cash inflow from sale of securities (vi)	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 (v)	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)**

(i) Cash and cash equivalents includes £223 million (2014: £247 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) 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, £74 million (2014: £185 million) is included within trade payables, £216 million (2014: £961 million) within trade receivables, and £393 million (2014: nil) 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.

(iii) Securities balances include £124 million (2014: £129 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £120 million of available-for-sale financial assets (2014: £86 million). The Group has posted £28 million (2014: £29 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(iv) In 2014, a £30 million deposit with Societe Generale in relation to a rolling credit facility was included within this category. The deposit was classified as an other receivable but the matching loan was included in borrowings. In 2015 the principal was repaid and the deposit released. Borrowings in 2015 are therefore not net of related deposits.

(v) 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).

(vi) Shares in Enercare Inc. with a value of C$106 million (£59 million), were received as part consideration for the disposal of Ontario home services in 2014. Half these shares were sold in 2015 for C$60 million (£26 million).

Notes to the Financial Statements

11. SOURCES OF FINANCE

(c) Borrowings, finance leases and interest accruals summary

31 December	Coupon rate %	Principal m	2015 Current £m	2015 Non-current £m	2015 Total £m	2014 Current £m	2014 Non-current £m	2014 Total £m
Bank overdrafts and loans [i]			**–**	**(222)**	**(222)**	(427)	(312)	(739)
Bonds (by maturity date):								
31 March 2015	Floating	$70	**–**	**–**	**–**	(45)	–	(45)
10 September 2015	0.320	¥30,000	**–**	**–**	**–**	(161)	–	(161)
11 September 2015	Floating	£51	**–**	**–**	**–**	(51)	–	(51)
12 September 2015	Floating	€100	**–**	**–**	**–**	(78)	–	(78)
24 October 2016	5.500	£300	**(308)**	**–**	**(308)**	–	(316)	(316)
14 April 2017	Floating	$200	**–**	**(136)**	**(136)**	–	(128)	(128)
19 September 2018	7.000	£400	**–**	**(433)**	**(433)**	–	(444)	(444)
1 February 2019	3.213	€100	**–**	**(74)**	**(74)**	–	(78)	(78)
25 September 2020	Floating	$80	**–**	**(54)**	**(54)**	–	(51)	(51)
22 February 2022	3.680	HK$450	**–**	**(39)**	**(39)**	–	(37)	(37)
10 March 2022	6.375	£500	**–**	**(523)**	**(523)**	–	(528)	(528)
16 October 2023	4.000	$750	**–**	**(525)**	**(525)**	–	(494)	(494)
4 September 2026	6.400	£200	**–**	**(222)**	**(222)**	–	(225)	(225)
16 April 2027	5.900	$70	**–**	**(47)**	**(47)**	–	(45)	(45)
13 March 2029	4.375	£750	**–**	**(739)**	**(739)**	–	(741)	(741)
5 January 2032 [ii]	Zero	€50	**–**	**(38)**	**(38)**	–	(41)	(41)
19 September 2033	7.000	£770	**–**	**(763)**	**(763)**	–	(762)	(762)
16 October 2043	5.375	$600	**–**	**(401)**	**(401)**	–	(379)	(379)
12 September 2044	4.250	£550	**–**	**(537)**	**(537)**	–	(536)	(536)
25 September 2045	5.250	$50	**–**	**(33)**	**(33)**	–	(32)	(32)
10 April 2075 [iii]	5.250	£450	**–**	**(450)**	**(450)**	–	–	–
10 April 2076 [iv]	3.000	€750	**–**	**(550)**	**(550)**	–	–	–
			(308)	**(5,564)**	**(5,872)**	(335)	(4,837)	(5,172)
Commercial paper			**–**	**–**	**–**	(735)	–	(735)
Obligations under finance leases [v]			**(43)**	**(207)**	**(250)**	(35)	(202)	(237)
Other borrowings			**(4)**	**–**	**(4)**	–	–	–
Interest accruals			**(120)**	**–**	**(120)**	(103)	–	(103)
			(475)	**(5,993)**	**(6,468)**	(1,635)	(5,351)	(6,986)

(i) As at 31 December 2014, current bank overdrafts and loans included £300 million of short-term borrowings drawn under committed facilities with maturities of 1 April 2019.
(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 £27 million (2014: £30 million).

Maturity analysis for non-current bank loans at 31 December	2015 £m	2014 £m
2–5 years	**(100)**	(96)
>5 years	**(122)**	(216)
	(222)	(312)

Notes to the Financial Statements

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 in joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2015 principally arises from its interests in the following entities (reported in the Centrica Energy – Power segment):

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

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2015 Total £m**	2014 Total £m
Income	99	644	2	**745**	722
Expenses excluding certain re-measurements	(65)	(416)	(3)	**(484)**	(527)
Certain re-measurements	–	(14)	–	**(14)**	25
	34	214	(1)	**247**	220
Interest paid	(41)	(12)	–	**(53)**	(62)
Taxation excluding certain re-measurements	13	(21)	–	**(8)**	(27)
Taxation on certain re-measurements	–	1	–	**1**	1
Share of post-taxation results of joint ventures and associates	**6**	**182**	**(1)**	**187**	132

(i) As part of the finance arrangements entered into by GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited, the Group's shares in these companies are secured in favour of third parties. The securities would only be enforced in the event that GLID Wind Farms TopCo Limited or Lincs Wind Farm Limited default on any of their obligations under their respective finance arrangements.

(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	Other £m	**2015 Total £m**	2014 (restated) (i) Total £m
Share of post-taxation results of joint ventures and associates	6	182	(1)	**187**	132
Certain re-measurements (net of taxation)	–	13	–	**13**	(26)
Interest paid	41	12	–	**53**	62
Taxation (excluding taxation on certain re-measurements)	(13)	21	–	**8**	27
Share of adjusted results of joint ventures and associates	**34**	**228**	**(1)**	**261**	195

(i) The share of adjusted results of joint ventures and associates for 2014 has been restated. See note 2 for further information.

(c) Interests in joint ventures and associates

	2015 Investments in joint ventures and associates £m	2015 Shareholder loans £m	**2015 Total £m**	2014 Investments in joint ventures and associates £m	2014 Shareholder loans £m	2014 Total £m
1 January	2,045	350	**2,395**	2,259	399	2,658
Additions	13	–	**13**	24	24	48
Disposals	(3)	–	**(3)**	(24)	–	(24)
Decrease in shareholder loans	–	(190)	**(190)**	–	(73)	(73)
Share of profits for the year	187	–	**187**	132	–	132
Share of other comprehensive (loss)/income	(5)	–	**(5)**	6	–	6
Impairment (note 6)	(372)	–	**(372)**	(214)	–	(214)
Dividends [(i)]	(186)	–	**(186)**	(138)	–	(138)
31 December	**1,679**	**160**	**1,839**	2,045	350	2,395

(i) Included within dividends is a non-cash £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	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2015 Total £m	2014 Total £m
Share of non-current assets	627	3,484	13	**4,124**	4,117
Share of current assets	86	573	1	**660**	699
	713	4,057	14	**4,784**	4,816
Share of current liabilities	(128)	(177)	(1)	**(306)**	(321)
Share of non-current liabilities	(515)	(1,685)	(1)	**(2,201)**	(2,228)
	(643)	(1,862)	(2)	**(2,507)**	(2,549)
Cumulative impairment	–	(586)	–	**(586)**	(214)
Restricted interest on shareholder loan (i)	(12)	–	–	**(12)**	(8)
Share of net assets of joint ventures and associates	58	1,609	12	**1,679**	2,045
Shareholder loans	159	–	1	**160**	350
Interests in joint ventures and associates	217	1,609	13	**1,839**	2,395
Net (debt)/cash included in share of net assets	(462)	62	(1)	**(401)**	(380)

(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 (ii)

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.
(ii) Energy contracts designated at fair value through profit or loss include certain energy contracts that the Group has, at its option, designated at fair value through profit or loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract.

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	2015 Assets £m	2015 Liabilities £m	2014 Assets £m	2014 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement/optimisation	**1,038**	**(1,782)**	644	(1,878)
Energy derivatives – for proprietary trading	**99**	**(1)**	44	(17)
Interest rate derivatives (i)	**–**	**(25)**	–	(30)
Foreign exchange derivatives (i)	**68**	**(89)**	58	(125)
Energy derivative contracts designated at fair value through profit or loss	**14**	**–**	16	(14)
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives (i)	**129**	**(3)**	158	(2)
Foreign exchange derivatives (i)	**28**	**(68)**	10	(87)
Total derivative financial instruments	**1,376**	**(1,968)**	930	(2,153)
Included within:				
Derivative financial instruments – current	**936**	**(1,460)**	617	(1,565)
Derivative financial instruments – non-current	**440**	**(508)**	313	(588)

(i) Included within these categories are £82 million (2014: £89 million) of derivatives used to hedge movements in net debt. See note 11(b).

Notes to the Financial Statements

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	2015 £m	2014 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	119	(302)
North America	(470)	(721)
Structured gas purchase contracts	(263)	(105)
Structured gas sales contracts	–	(14)
Structured power purchase contracts	(54)	(67)
Other	36	4
Net total	**(632)**	(1,205)

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 2015 (i)	Total membership as at 31 December 2015 (i)
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	4,044	8,688
	Defined benefit career average pension	Open to service engineers only	UK	3,933	5,108
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	3,903	8,782
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	15	10,721
	Defined benefit career average pension	Closed to new members in 2008	UK	1,852	4,153
	Defined contribution pension	Open to new members	UK	15,692	20,897
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	157	175
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	156	177
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	31	397
Direct Energy Marketing Limited	Post-retirement benefits	Closed to new members in 2012	Canada	162	366

(i) For Direct Energy Marketing Limited post-retirement benefits the membership information is at 31 December 2014.

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 for the Registered Pension Schemes based on the position at 31 March 2015 are in progress, however the underlying information has been updated to 31 December 2015 for the purposes of meeting the requirements of IAS 19: 'Employee Benefits' (2011). The latest full actuarial valuation for the Direct Energy Marketing Limited Pension Plan was carried out at 1 August 2014 and has also been updated to 31 December 2015 for the purpose of meeting the requirements of IAS 19. Investments held in all schemes have been valued for this purpose at market value.

Notes to the Financial Statements

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. During the year the Group offered a pension increase exchange (PIE) to future retirees within the Registered Pension Schemes. This PIE gives the option to receive a higher initial pension in return for giving up certain future increases linked to RPI. This has resulted in a past service credit of £38 million in the year.

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

For final salary schemes, the 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.

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 2015.

Total liabilities of the Registered Pension Schemes 31 December	**2015** **%**
Actives – final salary – capped	**26**
Actives – final salary – uncapped and crystallised benefits	**5**
Actives – career average	**5**
Deferred pensioners	**29**
Pensioners	**35**
	100

Notes to the Financial Statements

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	**2015** **%**	2014 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.0**	3.0
Rate of increase in pensions in payment	**3.0**	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.9**	1.9
In line with RPI	**3.0**	3.0
Discount rate	**3.9**	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	**Male** **Years**	**2015** **Female** **Years**	Male Years	2014 Female Years
Currently aged 65	**23.4**	**25.1**	22.7	25.1
Currently aged 45	**25.1**	**27.0**	24.4	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	**Increase/ decrease in assumption**	**2015** **Indicative effect on scheme liabilities** **%**	Increase/ decrease in assumption	2014 Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to cap	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–4**	0.25%	+/–5
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–4**	0.25%	+/–5
Longevity assumption	**1 year**	**+/–3**	1 year	+/–3

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

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

(d) Amounts included in the Group Balance Sheet

31 December	**2015** **£m**	2014 £m
Fair value of plan assets	**6,642**	6,444
Present value of defined benefit obligation	**(6,761)**	(6,382)
Net (liability)/asset recognised in the Group Balance Sheet	**(119)**	62
Pension asset presented in the Group Balance Sheet as:		
Retirement benefit assets	**91**	185
Retirement benefit liabilities	**(210)**	(123)
Net pension (liability)/asset	**(119)**	62

14. POST RETIREMENT BENEFITS

(e) Movement in the year

	2015 Pension liabilities £m	2015 Pension assets £m	2014 Pension liabilities £m	2014 Pension assets £m
1 January	**(6,382)**	**6,444**	(5,643)	5,683
Items included in the Group Income Statement:				
Current service cost	**(129)**	**–**	(115)	–
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**(24)**	**–**	(25)	–
Total current service cost	**(153)**	**–**	(140)	–
Past service credit	**38**	**–**	10	–
Interest (expense)/income	**(248)**	**253**	(260)	266
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	**–**	**(126)**	–	467
Actuarial (loss)/gain from changes to demographic assumptions	**(24)**	**–**	67	–
Actuarial gain/(loss) from changes in financial assumptions	**5**	**–**	(609)	–
Actuarial loss from experience adjustments	**(176)**	**–**	(8)	–
Exchange adjustments	**8**	**(5)**	1	(2)
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	**224**	–	191
Contributions by employer in respect of employee salary sacrifice arrangements (i)	**–**	**24**	–	25
Other movements:				
Plan participants' contributions	**(1)**	**1**	(1)	1
Benefits paid from schemes	**170**	**(170)**	153	(153)
Acquisition/disposal of businesses	**3**	**(3)**	50	(34)
Transfers from provisions for other liabilities and charges	**(1)**	**–**	(2)	–
31 December	**(6,761)**	**6,642**	(6,382)	6,444

(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 £43 million (2014: £37 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £13 million (2014: £12 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market value of plan assets were:

31 December	2015 Quoted £m	2015 Unquoted £m	2015 Total £m	2014 Quoted £m	2014 Unquoted £m	2014 Total £m
Equities	**1,884**	**219**	**2,103**	1,950	211	2,161
Diversified asset funds	**47**	**–**	**47**	42	113	155
Corporate bonds	**1,732**	**–**	**1,732**	1,813	–	1,813
High-yield debt	**167**	**781**	**948**	182	275	457
Liability matching assets	**874**	**556**	**1,430**	1,052	415	1,467
Property	**–**	**318**	**318**	–	328	328
Cash pending investment	**64**	**–**	**64**	63	–	63
	4,768	**1,874**	**6,642**	5,102	1,342	6,444

Included within equities are £1 million (2014: £2 million) of ordinary shares of Centrica plc via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £2 million (2014: £3 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 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 £76 million (2014: £75 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, £50 million (2014: £49 million) relate to this scheme.

Notes to the Financial Statements

14. POST RETIREMENT BENEFITS

(g) Pension scheme contributions

Based on the triennial valuations at 31 March 2012, the Group and the trustees of the Registered Pension Schemes agreed to fund the scheduled deficit payments using asset-backed contribution arrangements. Under the arrangements, certain loans to UK Group companies were transferred to Scottish Limited Partnerships established by the Group. During 2012 and 2013 the Group made special contributions to the Registered Pension Schemes of £444 million, which the schemes immediately used to acquire interests in the partnerships for their fair value of £444 million. The schemes' total partnership interests entitle them to distributions from the income of the partnerships over a period of between four and 15 years. Until 2016 this income will amount to £77 million per annum but will reduce thereafter. The partnerships are controlled by Centrica and their results are consolidated by the Group. As the trustees' interests in the partnerships do not meet the definition of a plan asset under IAS 19, they are not reflected in the Group Balance Sheet. Distributions from the partnerships to the schemes will be recognised as scheme assets in the future as they occur.

Although there is a relatively small IAS 19 accounting deficit in the Registered Pension Schemes in comparison with the defined benefit obligation, the pension trustees are required to calculate the funding position on a more prudent 'Technical Provisions' basis. The next triennial review based on the position as at 31 March 2015 is in progress and because government bond yields are currently low this is likely to result in a Technical Provisions deficit in the Registered Pension Schemes. It is likely, therefore, that additional deficit payments will be required following the completion of the triennial valuation.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £1 million was paid in the year to 31 December 2015. £2 million is to be paid in 2016; £1 million is to be paid in 2017, 2018, 2019 and 2020.

The Group estimates that it will pay £98 million of ordinary employer contributions during 2016 at an average rate of 21% of pensionable pay, together with £25 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) Business combinations

During the period, the Group acquired AlertMe's Hive technology and related research and development capabilities, and Panoramic Power's energy management technology and related research and development business. The business combinations section details the consideration paid and/or payable, as well as the provisional fair values of the net assets acquired.

The fair values are provisional unless stated otherwise. Note 3(a) sets out the assumptions used to derive the fair values. Goodwill recognised on these acquisitions is attributable to enhanced synergies, growth opportunities, the assembled workforce and technical goodwill from items such as deferred tax.

AlertMe

On 17 March 2015, the Group gained control of AlertMe, a UK-based business which provides innovative energy management products and services. Prior to this date, the Group held an interest in the company, which was previously accounted for as an investment in associate and under this transaction acquired the remaining share capital. The original stake was re-measured to its fair value at the acquisition date. A gain of £14 million was recognised in the Group Income Statement as a result of this re-measurement. The purchase consideration, net of cash received for the previously held interest, was £44 million excluding £4 million of cash acquired with the business. Goodwill of £46 million was recognised and is not tax deductible. The opening balance sheet includes an amount of £3 million related to the fair value of receivables, which also corresponds to their gross contractual amount. Separate from the consideration for the business, a payment of £4 million was made which has been recognised as post acquisition compensation expense and has been charged to operating costs before exceptional items in the Group Income Statement for the period ended 31 December 2015.

The AlertMe business forms part of the British Gas – Residential energy supply segment.

Panoramic Power

On 30 November 2015, the Group acquired 100% of the equity of Panoramic Power, an Israeli-based business which develops energy efficiency solutions for business customers. This acquisition enhances the Group's offering in terms of energy efficiency products and will initially be focused on Direct Energy Business' existing markets, with the intention to extend this to other markets over time, as part of the Group's new Distributed Energy & Power global business. The purchase consideration was US$64 million (£42 million), excluding US$5 million (£3 million) of cash acquired with the business. Goodwill of US$41 million (£27 million) was recognised and is not tax deductible. There were no material receivables recognised in the opening balance sheet as at the acquisition date.

The Panoramic Power business forms part of the Direct Energy – Business energy supply segment.

Acquisition-related costs of £5 million have been charged to operating costs before exceptional items in the Group Income Statement for the year ended 31 December 2015.

Notes to the Financial Statements

15. ACQUISITIONS AND DISPOSALS

(a) Business combinations

Provisional fair value of the identifiable acquired assets and liabilities

	AlertMe £m	Panoramic Power £m	**Total £m**
Balance Sheet items			
Non-current assets	15	17	**32**
Current assets (including £7 million of cash and cash equivalents)	7	4	**11**
Current liabilities	(7)	(1)	**(8)**
Non-current liabilities	(3)	(5)	**(8)**
Net identifiable assets	12	15	**27**
Goodwill	46	27	**73**
Net assets acquired	58	42	**100**
Consideration comprises:			
Cash consideration transferred	44	42	**86**
Consideration to be received held in escrow	(3)	–	**(3)**
Fair value of previously held interest	17	–	**17**
Total consideration transferred	58	42	**100**
Income Statement items			
Revenue recognised since the acquisition date in the Group Income Statement (i)	9	– (ii)	**9**
Loss since the acquisition date in the Group Income Statement (i)	(10)	– (ii)	**(10)**

(i) Revenue and losses from business performance between the acquisition date and the balance sheet date, exclude exceptional items and certain re-measurements.
(ii) Amounts not disclosed as not material with respect to the period ending 31 December 2015.

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions had been made at the beginning of the year, would show revenue of £27,974 million (compared to reported revenue of £27,971 million) and profit after taxation before exceptional items and certain re-measurements of £829 million (compared to reported profit after taxation of £833 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 acquisition, not restated for 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.

2014 business combinations – fair value updates

There have been no significant updates during the measurement period to the fair values recognised for businesses acquired in 2014. Additional intangible assets of £2 million have been recognised in respect of the Astrum Solar acquisition with a corresponding reduction of £2 million in goodwill.

(b) 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 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 US$10 million (£7 million). This transaction is expected to complete in the first half of 2016. The interests in Skene and Buckland are held within the 'Centrica Energy – Gas' segment.

	£m
Non-current assets	12
Current assets	1
Assets of disposal groups classified as held for sale	13
Current liabilities	(1)
Non-current liabilities	(45)
Liabilities of disposal groups classified as held for sale	(46)
Net liabilities of disposal groups classified as held for sale	(33)

Notes to the Financial Statements

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 and Company announced that it had entered into a 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US, subject to a number of project milestones and regulatory approvals being achieved. During 2015 Cheniere made a positive final investment decision on the fifth project at Sabine Pass following receipt of Federal Energy Regulatory Commission approval and a Non-Free Trade Agreement licence from the Department of Energy. Under the terms of the agreement with Cheniere, the Group is committed to make capacity payments of up to £3.8 billion (included in 'LNG capacity' below) between 2018 and 2038. The Group may also make up to £6 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 Q4 2018.

31 December	2015 £m	2014 £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Norwegian Maria oil and gas field	110	–
Development of other Norwegian oil and gas assets	52	76
Development of Cygnus gas field	101	182
Other capital expenditure	79	23
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (i)	977	1,063
Renewable obligation certificates to be purchased from other parties	2,462	2,024
Other intangible assets	272	247
Other commitments:		
Commodity purchase contracts	43,547	39,563
LNG capacity	4,473	4,388
Transportation capacity	932	942
Outsourcing of services	146	148
Commitments to invest in joint ventures	–	5
Energy Company Obligation	13	39
Power station tolling fees	93	110
Smart meters	169	67
Power station operating and maintenance	155	162
Heat rate call options	77	146
Other long-term commitments	276	396
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	770	810

(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.

16. COMMITMENTS AND CONTINGENCIES

At 31 December the maturity analyses for commodity purchase contract commitments and the total minimum lease payments under non-cancellable operating leases were:

31 December	Commodity purchase contract commitments 2015 £billion	Commodity purchase contract commitments 2014 £billion	Total minimum lease payments under non-cancellable operating leases 2015 £m	Total minimum lease payments under non-cancellable operating leases 2014 £m
<1 year	**9.1**	10.4	**121**	154
1–2 years	**5.0**	6.4	**82**	117
2–3 years	**3.4**	3.3	**73**	79
3–4 years	**2.9**	3.0	**66**	60
4–5 years	**3.6**	2.2	**58**	50
>5 years	**19.5**	14.3	**370**	350
	43.5	39.6	**770**	810

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

Year ended 31 December	2015 £m	2014 £m
Minimum lease payments (net of sub-lease receipts)	**125**	113
Contingent rents – renewables [(i)]	**75**	98

(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 (2014: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

(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 Kvitebjorn 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 Kvitebjorn 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

On 13 June 2013, the Group acquired a 25% interest in the Bowland exploration licenses in Lancashire from Cuadrilla Resources Ltd and AJ Lucas Group Ltd for £44 million in cash. During the year, the Group renegotiated the commercial terms around the carry and contingent payment obligations agreed at acquisition. The Group may now be required to pay £32 million of additional costs related to exploration activities under a carry agreement which is contingent on planning consents being received. Following the completion of these exploration activities, the Group would pay additional costs of £35 million under a further carry agreement if the Group elects to continue into the development phase.

There are no other material contingent liabilities.

Notes to the Financial Statements

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 2015 and the date of this report.

Disposal

On 5 February 2016, Centrica and its 50% joint venture partner announced the joint sale of the Glens of Foudland, Lynn and Inner Dowsing ('GLID') wind farms. After repayment of debt associated with GLID and other costs, Centrica's net share of the sales proceeds will be approximately £115 million, which exceeds the carrying value of the disposed assets. The sale is in line with Centrica's strategy to dispose of its interests in wind power generation. Centrica will continue to purchase 100% of the power and 50% of the ROCs from the three wind farms under existing power purchase agreements until 2024.

As at 31 December 2015, management considered that the disposal group did not meet the IFRS 5: 'Non-current assets held for sale and discontinued operations' criteria to be classified as held for sale. A sale was not considered to be highly probable within one year. Although plans to sell the disposal group had been announced and negotiations with buyers had commenced, there was significant uncertainty at the balance sheet date as to whether a sale could be completed in its present condition, given the complex and unique nature of the deal being proposed for an offshore wind farm asset.

Dividends

The Directors propose a final dividend of 8.43 pence per ordinary share (totalling £427 million) for the year ended 31 December 2015. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 18 April 2016 and, subject to approval, will be paid on 23 June 2016 to those shareholders registered on 13 May 2016.

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 2015 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	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the period £m	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the period £m
Group revenue	21(a)	**12,520**	**–**	**12,520**	13,660	–	13,660
Cost of sales before exceptional items and certain re-measurements		**(10,660)**	**–**	**(10,660)**	(11,571)	–	(11,571)
Re-measurement of energy contracts	22(b)	**–**	**(297)**	**(297)**	–	(988)	(988)
Cost of sales		**(10,660)**	**(297)**	**(10,957)**	(11,571)	(988)	(12,559)
Gross profit		**1,860**	**(297)**	**1,563**	2,089	(988)	1,101
Operating costs before exceptional items		**(1,514)**	**–**	**(1,514)**	(1,505)	–	(1,505)
Exceptional items – impairments	22(a)	**–**	**(2,268)**	**(2,268)**	–	(1,938)	(1,938)
Exceptional items – onerous provision	22(a)	**–**	**(90)**	**(90)**	–	–	–
Exceptional items – gains on disposals	22(a)	**–**	**–**	**–**	–	122	122
Operating costs		**(1,514)**	**(2,358)**	**(3,872)**	(1,505)	(1,816)	(3,321)
Share of profits in joint ventures and associates, net of interest and taxation	22(b)	**127**	**(18)**	**109**	55	7	62
Group operating loss	21(b)	**473**	**(2,673)**	**(2,200)**	639	(2,797)	(2,158)
Financing costs		**(168)**	**–**	**(168)**	(163)	–	(163)
Investment income		**24**	**–**	**24**	28	–	28
Net finance cost		**(144)**	**–**	**(144)**	(135)	–	(135)
Loss before taxation		**329**	**(2,673)**	**(2,344)**	504	(2,797)	(2,293)
Taxation on loss		**(65)**	**493**	**428**	(94)	832	738
Loss for the period		**264**	**(2,180)**	**(1,916)**	410	(1,965)	(1,555)
Attributable to:							
Owners of the parent		**276**	**(2,073)**	**(1,797)**	403	(1,948)	(1,545)
Non-controlling interests		**(12)**	**(107)**	**(119)**	7	(17)	(10)

Earnings per ordinary share		2015 Pence	2014 Pence
Basic	23	**(35.6)**	(30.9)
Diluted	23	**(35.6)**	(30.9)

Notes to the Financial Statements (Unaudited)

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

Six months ended 31 December	**2015 £m**	2014 £m
Group operating loss including share of results of joint ventures and associates	**(2,200)**	(2,158)
Less share of profit of joint ventures and associates, net of interest and taxation	**(109)**	(62)
Group operating loss before share of results of joint ventures and associates	**(2,309)**	(2,220)
Add back/(deduct):		
Depreciation, amortisation, write-down and impairments	**2,890**	2,665
Loss/(profit) on disposals	**1**	(176)
Increase/(decrease) in provisions	**63**	(14)
Defined benefit pension service cost and contributions	**(109)**	(86)
Employee share scheme costs	**20**	13
Unrealised losses arising from re-measurement of energy contracts	**266**	1,049
Operating cash flows before movements in working capital	**822**	1,231
Increase in inventories	**(55)**	(55)
Increase in trade and other receivables	**(16)**	(1,335)
Increase in trade and other payables	**350**	679
Operating cash flows before payments relating to taxes, interest and exceptional charges	**1,101**	520
Taxes paid	**(205)**	(294)
Payments relating to exceptional charges	**(39)**	(63)
Net cash flow from operating activities	**857**	163
Purchase of businesses	**(41)**	(18)
Sale of businesses	**8**	225
Purchase of property, plant and equipment and intangible assets	**(446)**	(715)
Sale of property, plant and equipment and intangible assets	**7**	8
Investments in joint ventures and associates	**(1)**	(16)
Dividends received from joint ventures and associates	**115**	95
Repayments of loans to, and disposal of investments in, joint ventures and associates	**1**	96
Interest received	**21**	22
Sale of securities	**35**	7
Net cash flow from investing activities	**(301)**	(296)
Issue and surrender of ordinary share capital for share awards	**9**	7
Payments for own shares	**(7)**	(2)
Purchase of treasury shares under share repurchase programme	**–**	(215)
Investment by non-controlling interests	**–**	119
Distribution to non-controlling interests	**–**	(18)
Financing interest paid	**(150)**	(201)
Repayment of borrowings	**(459)**	(491)
Cash received from borrowings, net of linked deposit	**–**	984
Equity dividends paid	**(149)**	(259)
Net cash flow from financing activities	**(756)**	(76)
Net decrease in cash and cash equivalents	**(200)**	(209)
Cash and cash equivalents at beginning of period	**1,063**	815
Effect of foreign exchange rate changes	**(3)**	15
Cash and cash equivalents at 31 December	**860**	621
Included in the following line of the Group Balance Sheet:		
Cash and cash equivalents	**860**	621

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 £m (2015)	Less inter-segment revenue £m (2015)	Group revenue £m (2015)	Gross segment revenue £m (2014)	Less inter-segment revenue £m (2014)	Group revenue £m (2014)
International Downstream						
Residential energy supply	**3,558**	**(6)**	**3,552**	3,777	(3)	3,774
Residential services (i)	**932**	**(70)**	**862**	854	(82)	772
Business energy supply and services (i)	**1,042**	**11**	**1,053**	1,408	(9)	1,399
British Gas	**5,532**	**(65)**	**5,467**	6,039	(94)	5,945
Residential energy supply	**971**	**–**	**971**	1,172	–	1,172
Residential and business services	**257**	**–**	**257**	267	–	267
Business energy supply	**3,457**	**–**	**3,457**	3,930	–	3,930
Direct Energy	**4,685**	**–**	**4,685**	5,369	–	5,369
Bord Gáis Energy	**333**	**–**	**333**	391	–	391
International Upstream						
Gas	**1,563**	**(73)**	**1,490**	1,521	(143)	1,378
Power	**591**	**(110)**	**481**	686	(161)	525
Centrica Energy	**2,154**	**(183)**	**1,971**	2,207	(304)	1,903
Centrica Storage	**85**	**(21)**	**64**	79	(27)	52
	12,789	**(269)**	**12,520**	14,085	(425)	13,660

(i) 2015 revenue includes a reclassification of public sector installation revenue from British Gas Business energy supply and services to British Gas Residential services.

Notes to the Financial Statements (Unaudited)

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 2015 £m	Adjusted operating profit 2014 (restated) (i) £m	Adjusted operating profit after taxation 2015 £m	Adjusted operating profit after taxation 2014 (restated) (i) £m
International Downstream				
Residential energy supply	46	174	38	137
Residential services	132	141	107	111
Business energy supply and services	(25)	53	(20)	44
British Gas	153	368	125	292
Residential energy supply	44	42	22	32
Residential services	(16)	14	(11)	10
Business energy supply and services	108	53	65	31
Direct Energy	136	109	76	73
Bord Gáis Energy	7	7	4	3
International Upstream				
Gas	106	127	69	62
Power (ii)	63	40	55	92
Centrica Energy	169	167	124	154
Centrica Storage	24	19	15	14
	489	670	344	536
Share of joint ventures'/associates' interest and taxation	(16)	(31)		
Operating profit before exceptional items and certain re-measurements	473	639		
Exceptional items (note 22)	(2,358)	(1,816)		
Certain re-measurements included within gross profit (note 22)	(297)	(988)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 22)	(18)	7		
Operating loss after exceptional items and certain re-measurements	(2,200)	(2,158)		

Six months ended 31 December	2015 £m	2014 (restated) (i) £m
Adjusted operating profit after taxation (iii)	344	536
Impact of changes to UK corporation tax rates (iv)	46	(2)
Corporate and other taxation, and interest (net of taxation) (v)	(126)	(124)
Business performance profit for the period	264	410
Exceptional items and certain re-measurements (net of taxation) (note 22)	(2,180)	(1,965)
Statutory loss for the period	(1,916)	(1,555)

(i) Adjusted operating profit for 2014 has been restated following the Board's decision to include the fair value depreciation of fair value uplifts of fixed assets acquired on Strategic Investments in the definition of adjusted operating profit. See note 2 for further information.
(ii) Power adjusted operating profit after taxation for 2014 includes a one-off deferred tax benefit of £44 million following a legal entity reorganisation.
(iii) Segment operating profit after tax, before exceptional items and certain re-measurements. This includes operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.
(iv) Includes £19 million (2014: nil) relating to equity accounted interests.
(v) 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	2015 £m	2014 £m
Impairment of Centrica Energy exploration and production assets (note 6)	**(1,865)**	(1,189)
Impairment of UK power generation assets and provisions for onerous power procurement contracts (note 6)	**(121)**	(535)
Impairment on Nuclear investment (note 6)	**(372)**	(214)
Gain on disposal of Ontario home service business	**–**	122
Exceptional items included within Group operating loss	**(2,358)**	(1,816)
Taxation on exceptional items	**477**	515
Impairment of Centrica Energy exploration and production deferred tax assets (note 6)	**(81)**	–
Net exceptional items after taxation	**(1,962)**	(1,301)

(b) Certain re-measurements

Six months ended 31 December	2015 £m	2014 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	**344**	14
Net losses arising on market price movements and new contracts	**(641)**	(1,002)
Net re-measurements included within gross profit	**(297)**	(988)
Net (losses)/gains arising on re-measurement of associates' energy contracts (net of taxation)	**(18)**	7
Net re-measurements included within Group operating loss	**(315)**	(981)
Taxation on certain re-measurements	**97**	317
Net re-measurements after taxation	**(218)**	(664)

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

Six months ended 31 December	2015 £m	2015 Pence per ordinary share	2014 (restated) (i) £m	2014 (restated) (i) Pence per ordinary share
Loss – basic	**(1,797)**	**(35.6)**	(1,545)	(30.9)
Net exceptional items after taxation (note 22 (ii))	**1,855**	**36.8**	1,284	25.7
Certain re-measurement gains after taxation (note 22)	**218**	**4.3**	664	13.3
Earnings – adjusted basic	**276**	**5.5**	403	8.1
Loss – diluted (iii)	**(1,797)**	**(35.6)**	(1,545)	(30.9)
Earnings – adjusted diluted	**276**	**5.4**	403	8.0

(i) Adjusted basic and adjusted diluted earnings and adjusted basic and diluted EPS have been restated; refer to note 2.
(ii) Net exceptional items after taxation of £1,962 million (2014: £1,301 million) are reduced by £107 million (2014: £17 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.
(iii) 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 and 2014.

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. 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 Kvitebjorn, Statfjord, Cygnus, South Morecambe, Maria, Chiswick, Valemon, Butch and Rhyl. 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, Wildcat Hills, Alderson, Stolberg, Hanlan and Ferrier. 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)	Centrica Energy	Centrica Storage	**Total**
1 January 2015	1,631	909	109	**2,649**	182	**2,831**
Revisions of previous estimates (iii)	(6)	28	(19)	**3**	–	**3**
Disposals of reserves in place (iv)	–	(4)	–	**(4)**	–	**(4)**
Extensions, discoveries and other additions (v)	–	30	–	**30**	–	**30**
Production (vi)	(203)	(76)	(21)	**(300)**	(6)	**(306)**
31 December 2015	**1,422**	**887**	**69**	**2,378**	**176**	**2,554**

Estimated net 2P reserves of liquids (million barrels)	Europe	Canada (i)	Trinidad and Tobago (ii)	Centrica Energy	Centrica Storage	**Total**
1 January 2015	126	17	–	**143**	–	**143**
Revisions of previous estimates (iii)	5	1	–	**6**	–	**6**
Extensions, discoveries and other additions (v)	–	1	–	**1**	–	**1**
Production (vi)	(16)	(2)	–	**(18)**	–	**(18)**
31 December 2015	**115**	**17**	**–**	**132**	**–**	**132**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Canada (i)	Trinidad and Tobago (ii)	Centrica Energy	Centrica Storage	**Total**
31 December 2015 (vii)	352	165	11	**528**	29	**557**

(i) The Canada reserves represent the Group's 60% interest in the natural gas 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).
(iii) Revision of previous estimates including those associated with Statfjord, Kvitebjorn, Butch, Valemon, Grove and Galleon areas in Europe; the Peace River Arch and Hanlan Robb areas in Canada and NCMA-1 in Trinidad and Tobago.
(iv) Reflects the disposal of Craigmyle and Endiang assets during the year.
(v) Recognition of reserves including the addition of 81 development locations in Canada.
(vi) Represents total sales volumes of gas and oil produced from the Group's reserves. In August 2015 Centrica Storage gained consent from the Oil and Gas Authority (OGA) to convert 15 bcf of cushion gas to working gas. By 31 December 2015, 6 bcf had been converted (deemed production) with the remainder expected to be converted in 2016.
(vii) Includes the total of estimated gas and liquid reserves at 31 December 2015 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

OFGEM Consolidated Segmental Statement

The Ofgem Consolidated Segmental Statements (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 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/prelims2015.

Ofgem consolidated segmental statement

Year ended 31 December 2015

		Electricity Generation			**Aggregate**	Electricity Supply		Gas Supply		**Aggregate**	
	Unit	Nuclear (i)	Thermal (i)	Renewables	**Generation Business**	Domestic	Non-Domestic	Domestic	Non-Domestic	**Supply Business**	**Midstream Power (ii)**
Total revenue	**£m**	**596.3**	**443.4**	**124.0**	**1,163.7**	**3,309.4**	**1,682.5**	**4,939.6**	**677.9**	**10,609.4**	**106.5**
Sales of electricity & gas	£m	591.3	432.1	45.6	**1,069.0**	3,241.6	1,679.1	4,863.8	677.9	**10,462.4**	**74.5**
Other revenue	£m	5.0	11.3	78.4	**94.7**	67.8	3.4	75.8	–	**147.0**	**32.0**
Total operating costs	**£m**	**(291.4)**	**(527.3)**	**(59.0)**	**(877.7)**	**(3,266.7)**	**(1,722.9)**	**(4,298.4)**	**(640.9)**	**(9,928.9)**	**(88.9)**
Direct fuel costs	£m	(83.9)	(315.8)	–	**(399.7)**	(1,369.9)	(802.0)	(2,264.8)	(381.7)	**(4,818.4)**	**–**
Direct costs	£m	(211.7)	(134.8)	(31.9)	**(378.4)**	(1,363.7)	(672.6)	(1,273.8)	(137.4)	**(3,447.5)**	**(72.6)**
Network costs	£m	(38.7)	(31.3)	(11.4)	**(81.4)**	(890.7)	(385.5)	(1,126.9)	(126.2)	**(2,529.3)**	**(1.3)**
Environmental and social obligation costs	£m	–	(50.5)	–	**(50.5)**	(444.5)	(258.1)	(117.6)	–	**(820.2)**	**(0.7)**
Other direct costs	£m	(173.0)	(53.0)	(20.5)	**(246.5)**	(28.5)	(29.0)	(29.3)	(11.2)	**(98.0)**	**(70.6)**
Indirect costs (iii)	£m	4.2	(76.7)	(27.1)	**(99.6)**	(533.1)	(248.3)	(759.8)	(121.8)	**(1,663.0)**	**(16.3)**
WACOF/E/G	**£/MWh, P/th**	**(6.9)**	**(58.1)**	**–**	**N/A**	**(60.6)**	**(56.5)**	**(64.1)**	**(61.5)**	**N/A**	**N/A**
EBITDA	**£m**	**304.9**	**(83.9)**	**65.0**	**286.0**	**42.7**	**(40.4)**	**641.2**	**37.0**	**680.5**	**17.6**
DA (iv)	£m	(132.0)	(33.6)	(35.5)	**(201.1)**	(48.1)	(8.4)	(61.4)	(4.2)	**(122.1)**	**–**
EBIT	**£m**	**172.9**	**(117.5)**	**29.5**	**84.9**	**(5.4)**	**(48.8)**	**579.8**	**32.8**	**558.4**	**17.6**
Volume	TWh, MThms	**12.1**	**6.3**	**0.9**	**N/A**	**22.6**	**14.2**	**3,530.6**	**620.5**	**N/A**	
Average customer numbers/sites	'000s	**N/A**	**N/A**	**N/A**	**N/A**	**6,477.1**	**536.4**	**8,267.5**	**268.5**	**N/A**	

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**(0.2%)**	**(2.9%)**	**11.7%**	**4.8%**	**5.3%**
Supply PAT	**£m**	**(4.5)**	**(38.9)**	**465.5**	**26.1**	**448.2**
Supply PAT	**margin**	**(0.1%)**	**(2.3%)**	**9.4%**	**3.9%**	**4.2%**

2014 Summarised CSS

Year ended 31 December 2014

		Electricity Generation			Aggregate	Electricity Supply		Gas Supply		Aggregate	
	Unit	Nuclear (i) (iv)	Thermal (i) (v)	Renewables	Generation Business	Domestic	Non-Domestic	Domestic	Non-Domestic	Supply Business	Midstream Power (ii)
Total revenue	£m	575.1	599.2	144.9	1,319.2	3,296.3	1,963.6	5,031.2	765.9	11,057.0	105.6
EBIT	£m	209.7	(119.8)	9.9	99.8	45.2	54.6	393.7	68.6	562.1	30.8

		Electricity Supply Domestic	Electricity Supply Non-Domestic	Gas Supply Domestic	Gas Supply Non-Domestic	Aggregate Supply Business
Supply EBIT	margin	1.4%	2.8%	7.8%	9.0%	5.1%
Supply PAT	£m	35.4	44.2	308.2	55.6	443.4
Supply PAT	margin	1.1%	2.3%	6.1%	7.3%	4.0%

(i) The Nuclear and Thermal segments represent conventional electricity generation.
(ii) Midstream Power includes results from non-licensed activities related to power trading and bilateral arrangements with third-party owners of power generation assets in the UK and Europe (included in the 'Centrica Energy – Power' segment as defined in the Centrica plc Annual Report and Accounts 2015 (note 4)).
(iii) Included within Nuclear indirect costs is a one-off pension credit of £18.7 million.
(iv) The 2014 Nuclear segment EBIT excludes £58 million of depreciation of fair value uplifts to property, plant and equipment acquired in the Strategic Investment of Lake Acquisitions Limited; the 2015 depreciation figures reflect the Board's decision to include this in the definition of adjusted operating profit (£57 million).
(v) As the Langage, Humber and Killingholme power stations were reported as assets held for sale for the period 8 May 2014 to 31 December 2014 no depreciation has been charged on these stations during this period. The 2014 Thermal segment EBIT would have been reduced by £39.0 million had depreciation been charged.

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.

For further information

Centrica will hold its 2015 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 18 February 2016. There will be a live audio webcast of the presentation and slides at www.centrica.com/2015-prelim-results-webcast.

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

+ 44 20 3059 8125

The call title is “**Centrica plc 2015 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 23 February 2016.

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Financial calendar

Trading Update	18 April 2016
Annual General Meeting	18 April 2016
Ex-dividend date for 2015 final dividend	12 May 2016
Record date for 2015 final dividend	13 May 2016
Final date to elect to participate in 2015 final scrip dividend programme	2 June 2016
2015 final dividend payment date	23 June 2016
2016 Interim Results announcement	28 July 2016

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