Satisfying the changing needs of our customers

Annual Review 2016

centrica

We are an energy and services company.

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

Group Highlights

GROUP FINANCIAL SUMMARY (Year ended 31 December)

Group revenue	£27.1bn	2015: £28.0bn	▼3%
Adjusted operating profit	£1,515m	2015: £1,459m	▲4%
Adjusted earnings	£895m	2015: £863m	▲4%
Adjusted basic earnings per share (EPS)	16.8p	2015: 17.2p	▼2%
Adjusted operating cash flow	£2,686m	2015: £2,253m	▲19%
Group net debt	£3,473m	2015: £4,747m	▼27%
Return on average capital employed (ROACE)	16%	2015: 12%	▲4ppt
Growth revenue	£194m	2015: £114m	▲70%
Statutory operating profit/(loss)	£2,486m	2015: £(857)m	● nm
Statutory profit/(loss) for the year attributable to shareholders	£1,672m	2015: £(747)m	● nm
Net exceptional items after taxation included in statutory profit/(loss)	£27m	2015: £(1,846)m	● nm
Basic earnings per share	31.4p	2015: (14.9)p	● nm

GROUP KEY OPERATIONAL PERFORMANCE INDICATORS

Total customer account holdings – Home	26,196	2015: 27,069	▼3%	*year end, '000s
Total customer account holdings – Business	1,348	2015: 1,396	▼3%	*year end, '000s
Total customer gas consumption (mmth)	12,022	2015: 12,177	▼1%	
Total customer electricity consumption (GWh)	144,810	2015: 151,596	▼4%	
Direct Group headcount[1]	36,494	2015: 39,389	▼7%	*year end
Total recordable injury frequency rate	0.98	2015: 1.10	▼11%	*per 200,000 hours worked

1 Direct Group headcount excludes contractors, agency and outsourced staff. 2015 has been restated to include North America DE&P.

At a Glance

Iain Conn Group Chief Executive

"We delivered our key objectives including improved safety performance, better customer service, and more innovative offerings and solutions, while repositioning the portfolio, building capability and driving significant cost savings."

SAFETY

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

GOOD FINANCIAL PERFORMANCE

▲4% Adjusted operating profit and adjusted earnings both up 4%.

▲19% Adjusted operating cash flow up 19% to £2,686 million, including £357 million working capital inflow in UK Business.

14% Underlying adjusted operating cash flow growth was 14%, in excess of the Group's 3–5% per annum long-term target.

INVESTING IN NEW TECHNOLOGIES AND CAPABILITIES

Enhanced 'Internet of Things' platform, data science and analytics, and digital capability.

527,000 527,000 Connected Home hubs installed; now selling Hive products in North America.

Centrica builds a pioneering local energy market in Cornwall.

CUSTOMER DELIVERY MATERIALLY IMPROVED

Investment in customer service and digital capability resulted in UK Energy Supply & Services complaints down 31% and higher net promoter scores across all geographies in 2016.

Launch of innovative new product offers for both Centrica Consumer and Centrica Business customers.

RESHAPING OUR PORTFOLIO IN LINE WITH STRATEGY

ENER-G Cogen and Neas Energy acquisitions add significant capabilities in distributed generation and asset management.

Completed exit from wind power with GLID and Lincs wind farm sales and announced exit from Trinidad and Tobago.

BALANCE SHEET SIGNIFICANTLY STRENGTHENED

▼27% Net debt down 27% to £3.5 billion.

▲112% Net assets up 112% to £2,844 million with the share placement and current year profits offsetting the movement in the pension deficit.

COST EFFICIENCY PROGRAMME

£384m We made strong progress with our £750 million per annum efficiency cost programme delivering £384 million of savings in 2016.

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the Strategic Report are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 52 to 55.

FOCUS ON CASH FLOW, CAPITAL DISCIPLINE AND NET DEBT REDUCTION

£2bn Adjusted operating cash flow expected to exceed £2 billion in 2017.

Great companies meet a need that is valued by customers and society.

Read more in the Chairman's Statement on page 4

Business Model

Read more on pages 16 and 17

Smarter energy

Read more on pages 20 and 21

Responsible Business Update

Read more on page 24

Group Financial Review

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Principal Risks

Read more on page 56

Summary Directors' and Governance Report

Read more on pages 72 and 73

Energy Supply & Services

Read more on pages 36 to 39

Connected Home

Read more on pages 40 and 41

Distributed Energy & Power

Read more on pages 42 and 43

Energy Marketing & Trading

Read more on pages 44 and 45

Exploration & Production

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Central Power Generation

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Centrica Storage

Read more on pages 50 and 51

Summary Remuneration Report

Read more on pages 74 and 75

CONTENTS

Our Businesses

Our focus

Centrica: a customer-facing energy and services company for the 21st century

CUSTOMER-FACING BUSINESSES

Energy Supply & Services

Supplying energy and services to consumer and business customers in the UK, the Republic of Ireland and North America through our new business units: UK Home; UK Business; Ireland; North America Home; and North America Business.

Connected Home

Our Hive smart thermostat and other products and services help our customers in the areas of home energy management, home automation and peace of mind.

Distributed Energy & Power

Providing industrial and commercial consumers with the ability to use energy more intelligently, giving customers tools to generate and manage their energy usage.

Energy Marketing & Trading

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

ASSET-BASED BUSINESSES

Exploration & Production

Targeting production of between 40 to 50 million barrels of oil equivalent per year focused on the UK, the Netherlands and Norway.

Central Power Generation

The thermal power generation portfolio is being rationalised with a view to simplification and cost reduction while retaining low cost optionality. We hold a 20% interest in eight nuclear power stations in the UK.

Centrica Storage

The Group operates the Rough gas storage facility, which is a strategic storage asset for the UK.

Our strategy

The world of energy is changing and, with our chosen businesses, distinctive positions and current capabilities, Centrica is well placed to deliver for its customers and for society.

We will satisfy our customers, deliver cash flow growth and returns for our shareholders and be efficient and excellent in our operations.

We are shifting investment towards our customer-facing businesses – organised around two global customer-facing divisions: Centrica Consumer and Centrica Business focused on the residential consumer and the business customer respectively.

Our areas of focus are Energy Supply & Services, Connected Home, Distributed Energy & Power, Energy Marketing & Trading and the optimisation around Central Power Generation.

We supply energy and services to around 28 million customer accounts mainly in the UK, Ireland and North America through strong brands such as British Gas, Direct Energy and Bord Gáis supported by around 12,000 engineers and technicians.

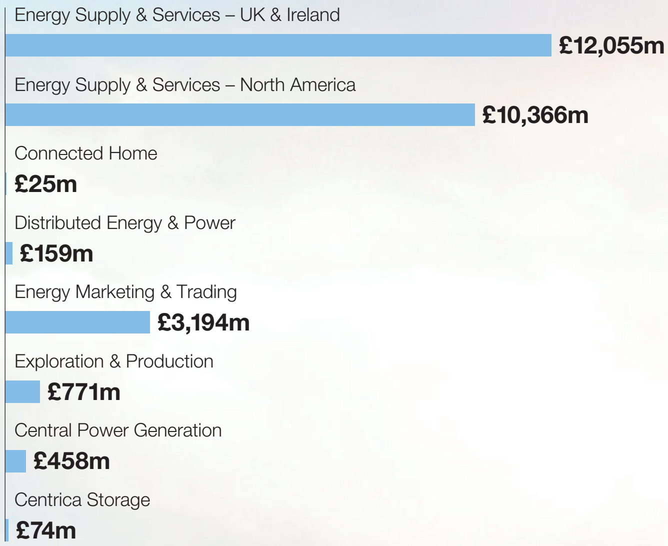
We are focused on delivering high levels of customer service, improving customer engagement and loyalty. We are developing innovative products, offers and solutions, underpinned by investment in technology.

The role of Exploration & Production is to provide diversity of cash flows and the balance sheet strength required to supply energy and services to our customers. It continues to play an important role in our portfolio.

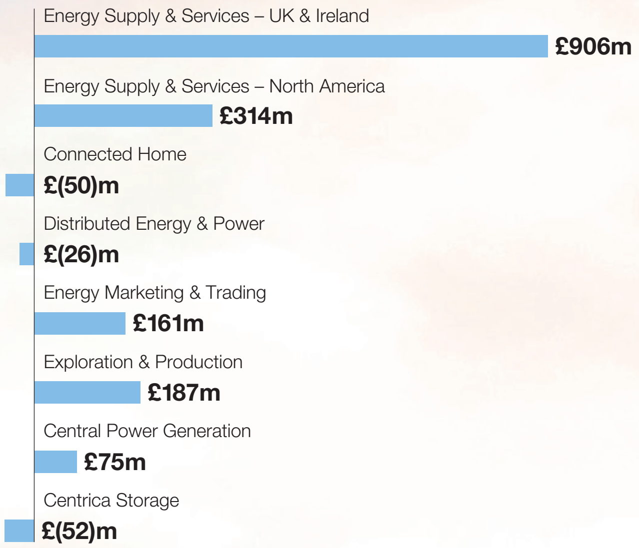
We aim to be a good corporate citizen; employer of choice and to provide leadership in a dynamic and changing world.

Our performance

BREAKDOWN BY EXTERNAL OPERATIONAL REVENUE



BREAKDOWN BY ADJUSTED OPERATING PROFIT/(LOSS)



Chairman's Statement

2016 was an extremely challenging year in which Centrica met or beat its targets whilst, importantly, underpinning discipline throughout the organisation on key matters of safety, ethics and compliance.

The impact has been broad with financial delivery, organisational transformation, process efficiency, cash flow and strategic implementation all showing distinct progress. The business re-orientation has been very radical with a particular emphasis on finding ways to enable our people and technology to better understand and serve the changing energy needs of our customers on both sides of the Atlantic.

This process of reshaping Centrica has not been easy or comfortable for our own people and I would like to pay tribute to and thank everyone for their hard work and resilience during the year. Throughout this process, Iain Conn has shown firm, imaginative and decisive leadership. He has chosen his senior team wisely and led them intelligently. They too deserve credit for their performance.

Despite the improvement in our financial position, we took the decision not to resume a progressive dividend policy at this stage. This was a finely weighted judgement. But, in these uncertain times, we would rather err on the side of prudence as further work still needs to be done on strengthening the balance sheet and returning the business to growth.

Our growth plans are clearly shaped with the shift in investment intensity from the resource businesses towards the customer, supporting a focus on building our growth businesses such as Distributed Energy & Power, Connected Home, and Energy Marketing & Trading. We are committed to investing in these businesses, positioning ourselves to compete successfully in a fast-moving, attractive and aggressive environment. We continuously ask ourselves the question 'What will it take to be a winner?' in this new world, and always seek to act to improve our probability of success by adapting our capabilities, technologies and governance as required.

We made strides in 2016, but we are far from satisfied. Our objective is not simply a return to profitable growth for the benefit of our investors, important though that is. Rather we are driven by an over-arching aspiration to become a truly great company.

What does that require, in our view?

Great companies meet a need that is valued by customers and society. And, in doing so, they benefit their shareholders as well as wider stakeholders, including employees, suppliers, partners and communities. And, the most important stakeholder of them all, our customers for whom our clear, resurrected purpose is unequivocally in service; a purpose that seeks to bring a contemporary relevance to a set of values rooted in our 205-year history. And, in that purpose, we are making progress.

Great companies are places where people worry more about what is not working than what is.

Customer complaints are down. But your Board and executive leadership regard any complaint as one too many. Efficiency has improved. But we have suffered a decline in employee engagement. Affordability has improved. But our customers live in a world where incomes continue to be squeezed. And so, we are more consumed by how far we still have to travel than by the distance travelled thus far.

Great companies are places where people think like owners and entrepreneurs, staying viscerally and intellectually connected with the dynamics of their businesses and the forces that shape the operating context of those businesses. And that context, today, is not easy. Business and wealth creation are terms of disparagement. Many reputations have been damaged by the actions of a few. And the positive impacts of globalisation, new technologies and creative investment have been drowned out by the concomitant growth of social inequality.

"Reshaping Centrica has not been easy or comfortable for our own people and I would like to pay tribute to and thank everyone for their hard work and resilience during the year."

Rick Haythornthwaite
Chairman

This poor opinion of business is bad for us, for the UK economy and for prosperity in general. So, we are acutely aware that we not only need to reconnect with our customers. We also need to forge a new partnership with government and our other stakeholders, based on mutual understanding and a willingness to work together.

That is why we welcome the Green Papers on Industrial Strategy and Governance recently published by the UK Government. Government has the power to create a constructive context in which businesses can make the investments which the nation needs.

In the end though, it is businesses, through everyday contact with their customers, which can make the biggest and most immediate impact. The source of real economic and social change is at a local, community level. And that is where companies can be very valuable facilitators of change for the better in people's lives.

Our engineers and technicians visit thousands of customers every week. They are trusted on an individual level to enter people's homes and meet an immediate need, as well as assessing their overall energy requirements.

Our Hattersley call centre on the outskirts of Manchester specialises in helping hundreds of indebted customers every day to manage their energy bills. Last year the proportion of our customers in debt fell and, among them, the proportion on an agreed repayment plan is well above the industry average.

These are just two examples of how we as a business connect with communities and individuals to effect change on the ground. We are close to the real issues and we can make a difference. And we know that we should do more.

It is in these relationships that trust is born, nurtured and thrives.

And great businesses must be built on a foundation of trust, a quality that is in short supply today.

We are very intent on rebuilding trust in our company and sector.

This requires not only an emotional and physical investment in our relationship with our customers and society but also the addressing of the prevalent impression that UK governance in general is failing, an impression that will render any such investment worthless if untreated.

In fact, there is a strong case to be made that the UK has the best corporate governance framework in the world.

The answer to any breakdowns in UK governance lies not in further embellishment of that framework but in promoting better compliance and a collective commitment to resolve some of the more intractable and sensitive issues over time.

Foremost amongst those issues is executive remuneration, often the lightning rod for criticism of boards. We are making progress over time. Long term executive pay trends are shifting towards more simplicity, lower differentials and internal succession in preference to expensive 'star signings' from outside. The responsibility lies with chairs and boards of directors to manage the balance between addressing this perniciously divisive problem and avoiding the unintended consequences that precipitous change, though perhaps politically popular in the short-term, may carry in terms of weakened capabilities and competitiveness. More regulation is unlikely to provide the answer.

In respect of compliance, your Board is continuously seeking ways in which we might better comply with and apply the Code. That must always start with recruiting the best possible directors whose track record speaks to their credentials, wisdom and professional approach. The quality of a board ultimately flows from the sum of these attributes; perhaps the setting and policing of standards in this key determinant of good governance holds the key to improving global standards rather than further embellishment of the Code.

We have worked to enhance our governance structures and processes throughout the year. But it is the ongoing, deliberate refreshing of your Centrica Board that holds the key.

During the year, we reviewed the succession plans in place for the Board and the Executive. We identified digital, retail, North America and financial services as areas of business experience and expertise where the recruitment of new Board members could complement the strengths of our existing Board. We also paid heed to the public concerns about the extent to which the voices of customers and employees were being heard in the boardroom, bolstering our agendas and approaches were necessary.

There were several changes to composition of the Board. In June, Stephen Hester was appointed as a Director of the company and, in October, he succeeded Ian Meakins as Senior Independent Director. Stephen has wide-ranging commercial experience, particularly in customer-facing businesses. In addition, he brings a broad understanding of financial services, together with a deep knowledge of operating within highly regulated businesses. I would like to thank Ian for the great contribution he has made in his six years' service on the Board.

> "In the end though, it is businesses, through everyday contact with their customers, which can make the biggest and most immediate impact."

Scott Wheway joined the Board in May. Scott has a wealth of experience as a senior customer-facing business leader with a mix of deep retail and consumer expertise. He is also a seasoned remuneration committee chair and will assume that role for Centrica following the 2017 AGM. Joan Gillman was appointed as a Non-Executive Director in October. Joan is former executive vice president of Time Warner Cable, the second largest cable company in the United States, and has wide experience in media, communications and the shaping of network technology strategies. Scott and Joan are both valuable additions to the Board and are already making their contributions felt.

During 2016, the Centrica leadership did a great deal to put in place the diverse teams, structure and technology required to underpin our growth and give us a competitive advantage in our chosen markets. Centrica has moved a long way in 12 months. We may have 'What does it take to be great?' as a constant challenge but equally we never lose sight of the question 'What do we have to do to make a difference now and make this future possible?' It is thanks to this healthy combination of aspiration and practical application amongst our executive team that your Board looks to the future with growing confidence.

Rick Haythornthwaite
Chairman
23 February 2017

Group Chief Executive's Statement

For Centrica, 2016 was a year of robust performance and progress in implementing our customer-focused strategy. We delivered our key objectives including improved safety performance, better customer service, and more innovative offerings and solutions, while repositioning the portfolio, building capability and driving significant cost savings as we build a platform for the future.

CENTRICA IN 2016

2016 was a very busy year for the Centrica team, but they have delivered a lot, and Centrica enters 2017 a stronger company, with encouraging underlying momentum and positioned to deliver longer-term returns and growth.

Our stated purpose is 'to provide energy and services to satisfy the changing needs of our customers'. But, as that mission statement also recognises, the nature of the world in which we operate is evolving rapidly and we need to respond equally fast if we are to survive and prosper.

During the year, we made a good start in the fundamental repositioning of Centrica by focusing on our customers, in line with the 2015 strategic review of the business, and concentrating on making ourselves more efficient and improving capability in the key functions which will allow us to deliver for them and build a real competitive advantage.

It is by no means an easy task and we are still in the early stages of the process. But because of the difficult choices we have already made, and specifically the refocusing of the company and the significant efficiencies we have been able to unlock, we have given ourselves the time to establish the capabilities necessary to pursue growth. We mustn't waste that opportunity and we have exciting plans, but the world of energy and services is changing rapidly.

There are three shifts driving change in the energy market and in our business. The first is the decentralisation of the energy system. This arises from more viable technologies and many types of solutions for energy management at the point of use.

The second shift, which follows on from the first, is that customers, communities, businesses and individuals, are gaining greater power to choose and control their energy use.

And thirdly, these trends are being accelerated by digital technology, especially big data and the actionable insights provided by analytics.

Our focus must be on what customers want and how we can best serve them. They want affordable energy; they want choice; they want control and the ability to use less energy; and, increasingly, they want lower carbon. We are very well positioned to deliver on all of these needs.

Finally, the world beyond the customer is also evolving. 2016 has seen some big changes in the political and economic environment. Centrica must be a trusted and constructive partner with governments and regulators, while also pursuing our own goals and the interests of our shareholders.

2016 was a year of solid strategic progress and good performance as we delivered for our customers in a rapidly changing economic, political and competitive environment.

RESHAPING CENTRICA

Against this backdrop, we have been repositioning Centrica to be more customer focused, and reallocating resources from Exploration & Production (E&P) and Central Power Generation towards the customer-facing businesses. The asset businesses remain important to the diversity of our portfolio and therefore our cash flow stability but, in relative terms, we are concentrating more resources on the customer.

In February 2017, we announced a major step in reorganising our customer-facing businesses. We have established two operating divisions, Centrica Consumer and Centrica Business. These two divisions will contain all of our businesses which face the residential consumer and the business customer respectively. We are organising to respond to their changing needs. In addition to these two customer-facing divisions, we will continue to develop our portfolio in E&P and in Centrica Storage.

"2016 was a very busy year for the Centrica team, but they have delivered a lot, and Centrica enters 2017 a stronger company, with encouraging underlying momentum and positioned to deliver longer-term returns and growth."

Iain Conn
Group Chief Executive

If we are to grow the business and enter new markets, we need to get our basic level of effectiveness right. So, we have tackled duplications and inefficiencies and we will continue the journey to simplify and standardise how Centrica works. Altogether, our reorganisation programme has so far required a direct like-for-like headcount reduction of around 3,000.

I recognise the significant challenges faced by colleagues over the last two years. The Centrica team has performed very well in extremely difficult circumstances. But we are now more resilient and adaptable to the external environment and all the internal changes we have made are aligned to achieving the purpose and strategic goals of the Group. We are now in a much stronger position to deliver for our customers, deliver for our shareholders and ultimately deliver for our own employees.

SAFETY

As we reposition the business, our overriding priority remains safety, compliance and conduct. If we don't get this right, we won't be able to execute all our other plans. Last year we saw a big improvement in customer safety, with the number of incidents falling by a quarter. Recordable and lost time injury frequency rates among our own people also fell. Sadly, however, one of our partner engineers was in a road accident in which they tragically died. One incident like this is one too many. We continue to focus on building safety capability with our people through effective communication and training. We also pay close attention to compliance and the relationships with all our regulators.

SERVING OUR CUSTOMERS

We must ensure we satisfy our customers and deliver operational excellence every day. To this end, we are investing £50 million in improving customer service, we have taken on more call centre advisers and we have increased the number of their training days. We try to make sure that our customers can always speak to someone who truly understands their needs.

Our continued focus and investment in customer service has resulted in higher net promoter scores and significantly lower complaint levels across our UK, Ireland and North America customer-facing businesses.

We aim to be clear and competitive on bills and pricing. We committed to freeze our standard tariff, one of the cheapest on the market, for the entire Winter 2016/17 period. We have since extended this freeze until August 2017 just as other providers are putting their prices up. Bord Gáis Energy also cut household gas and electricity costs by 2.5% and 5% respectively, making it the only supplier in Ireland to have reduced prices three times since February 2015.

HUMAN CAPABILITY

Centrica will only grow and prosper if we have the right people and invest in human capability across the company. Regrettably, but understandably in the light of our restructuring, we suffered a decline in employee engagement last year. We're committed to change that and foster an engaged, diverse and inclusive workforce which will help us to better understand the changing needs of our customers.

We pay at least the Living Wage to all our UK employees and we continue to train thousands of British Gas engineers and apprentices every year. We are also diversifying our talent pool through the Movement to Work scheme which helps young, unemployed people secure the skills they need for the workplace. Since 2014, we have provided 700 training placements, of which 60% gained permanent employment. As a whole, along with our partner organisations, Movement to Work has trained over 50,000 people and 54% of them have secured some form of employment in the workplace.

In 2016, we launched Spectrum, our Lesbian, Gay, Bi-Sexual & Transgender Plus (LGBT+) employee network which, together with our networks for women, carers and parents, provides a vital source of support for our people and ensures we listen and get feedback on how we can be more inclusive as an organisation.

Despite all of the organisational change, across the Group we have been focusing on building capability and ensuring we have the processes and tools to compete and serve our customers for the long-term.

You can read more about our people and some of their stories on pages 32 to 35 of the Annual Review.

TECHNOLOGY & INNOVATION

Reshaping the business is not simply about efficiency and structure, it is also about building new capabilities for the future. And here we laid some strong foundations in 2016.

We are working hard to understand what our customers want and to develop new technology and services to provide it. We are pioneers of the Connected Home. In the UK, we have over half a million users

"We must ensure we satisfy our customers and deliver operational excellence every day. To this end, we are investing £50 million in improving customer service, we have taken on more call centre advisers and we have increased the number of their training days. We try to make sure that our customers can always speak to someone who truly understands their needs."

Group Chief Executive's Statement continued

of our Hive connected hub. Hive customers can now use voice control, through Amazon's Alexa Voice Service, and Hive products are also being sold in North America.

Our customers are seeing tangible benefits. Our HomeEnergy FreeTime tariff for smart meter customers provides free electricity 9.00am – 5.00pm on a Saturday or Sunday, which can save an estimated £60 per year. And our Boiler IQ offering provides early warning of faults with heating or hot water.

Our Distributed Energy & Power (DE&P) business has been boosted by a first full year's contribution from Panoramic Power, a leading provider of wireless, device-level management solutions, which is helping our business customers to take control of their energy by giving them the tools to monitor, operate and optimise their own assets. Distributed energy is growing, altering the traditional supply model, and increasingly consumers are becoming 'prosumers', generating their own energy.

We have made strategic, value-creating additions to our technological capability. Last year we acquired Flowgem, which specialises in water leak detection; Neas Energy, a leading Danish provider of energy management and optimisation services for decentralised and renewable assets; and ENER-G Cogen, an established supplier and operator of Combined Heat & Power.

This year we will start a pioneering £19 million trial in Cornwall, which will see the creation of a virtual marketplace to buy and sell energy locally and the installation of new technology in over 150 homes and businesses. You can read more about it in one of our Case Studies on pages 12 and 13 of this Annual Review.

Innovation is a key driver of growth. That is why we have announced the formation of a new unit, Centrica Innovations (CI), to focus our efforts in this area and act as an incubator and accelerator of new ventures. The team will be small, agile and outward looking, drawing on experience from our own businesses, other companies, start-ups and entrepreneurs.

We plan to invest £20 million a year over the next five years (2017 to 2021) (up to £100 million in total) in CI. Our existing Ignite £10 million social enterprise investment fund will become part of the new CI unit.

Find out more about some of our ground-breaking products and services in the Technology & Innovation section on pages 10 and 11 of the Annual Review.

Key Events in 2016

2016

05/02
Centrica announces sale of Glens of Foudland, Lynn and Inner Dowsing (GLID) wind farms

READ MORE ON PAGE 49

11/02
British Gas leads with a further gas price cut of 5.1%

21/04
Centrica announces the acquisition of Neas Energy a trading optimisation business

READ MORE ON PAGES 45

05/05
Equity placing to access key acquisitions and strengthen the balance sheet in uncertain times

16/05
Centrica acquires ENER-G Cogen a combined heat and power (CHP) solutions business

READ MORE ON PAGES 14 AND 15

01/07
British Gas launches innovative new energy plan for smart meter customers called FreeTime

READ MORE ON PAGES 20 AND 21

15/09
Hive brings voice-control to heating, lighting and plugs

30/11
Centrica sells Trinidad and Tobago assets

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01/12
British Gas makes commitments to energy customers

15/12
First gas flows from Cygnus

READ MORE ON PAGE 47

2017

PERFORMANCE

Operationally, against a background of weak commodity prices, 2016 marked a distinct improvement on the previous year. In a highly competitive market we delivered new customer offers in energy supply and services and were very focused on improving our service levels. Home energy accounts in the UK were broadly flat in the second half, UK Business continued to deliver strong capital inflows, and North America Energy Supply & Services recovered well from a warm first half of the year.

We made progress in reducing the scale of our asset businesses and in simplifying the portfolio. We have now completed our exit from wind power generation, while in E&P we announced the divestment of our Trinidad and Tobago assets. We are targeting the sale of our Canadian E&P assets this year.

In 2016 the Group's financial performance was robust. Adjusted operating profit and earnings were both up 4%, with adjusted earnings per share of 16.8p. Adjusted operating cash flow was up 19% to £2.7 billion, significantly in excess of our 3–5% per annum target from 2015 to 2020 and providing strong underpinnings to that objective. Correcting for one-off working capital inflows and for changes in commodity prices between years, underlying adjusted operating cash flow growth was 14%.

We delivered savings of £384 million as part of the Group's cost efficiency programme, which aims to save £750 million a year by 2020. Organic capital investment came in below the £1 billion limit we set, at around £850 million.

Our net debt was 27% lower at the end of 2016, coming in at £3.47 billion, reflecting a strong cash focus and capital discipline. We have strengthened our balance sheet, and our own sources and uses of cash continue to be more than balanced.

RESPONDING TO CHANGING TIMES

2016 was the year which upset political orthodoxies on both sides of the Atlantic. As an international business, Centrica is not a passive spectator of these events. They affect us and we must manage through them, making an active response to changing and complex issues.

The UK referendum vote in June to leave the European Union and the outcome of the United States Presidential election in November have added to the uncertainties faced by businesses. However, we believe the direct impact on Centrica and Direct Energy specifically of these events is limited in the short term.

As far as the UK's withdrawal from the EU is concerned, many details of the implementation process remain unclear. Extricating ourselves from all the European treaties is a task of immense complexity. But I hope that, despite the difficulties ahead, the UK will find a pragmatic way to deal with the issues, and Centrica is well-positioned to manage any market impacts.

Our focus continues to be understanding what the result means for energy and other business regulations. As the UK is now a major energy importer, what happens in the European energy market will ultimately affect the price consumers in the UK pay for their energy. We will continue to engage with the UK Government and the European Commission as they move towards a resolution.

A strong and open trading relationship with the US is vital if we are to continue to prosper as a nation and a business. Free trade is fundamental to global prosperity and to the efficient functioning of international markets. It is important for the UK and the US to maintain transatlantic alignment on markets and regulation, so as to minimise distortions and to safeguard the access which businesses need.

US climate change policy is now in a state of flux. In the UK, we continue to support the Government's policy aims of decarbonisation, security of supply and affordability. We are not a passive partner. In fact, our focus on customers, in providing them with more insight and more tools with which to use less energy and to have more choice to produce, store and save it, means we are a major enabler of the response to climate change.

We welcome the publication of the UK Government's industrial strategy. This represents a unique opportunity to forge a new partnership between businesses and the Government; a partnership where the Government focuses on creating the conditions for businesses of all sizes to grow and flourish across the UK; and where businesses invest to upgrade our economy for a post-Brexit world.

But the Government must also take the lead in tackling one of the major burdens on the UK economy: productivity. The UK lags US and German labour productivity by 30 percentage points, France by over 25 and Italy by nine. To tackle this, we need to upgrade our economy by investing in infrastructure, jobs, skills and technology. We intend to play our part at Centrica.

2016 brought greater clarity on the regulatory front, with the Competition and Markets Authority (CMA) publishing the final report on its investigation into the UK energy market and the UK Government confirming reforms to the UK Capacity Market.

We have supported the CMA investigation throughout the process, even when we disagreed with some of its conclusions, and we are now actively implementing its remedies. Changes to Retail Market Reform rules, especially the increase in the number of tariffs we can offer, will also allow us to provide more choice for our UK Home customers.

The proposed reforms to the UK Capacity Market will bring on more generating capacity earlier than planned and improve the return to investors. Three of our new distributed energy projects and the replant of our Kings Lynn A power station all cleared the capacity market auction in December, in addition to our existing Langage, Humber and Brigg gas-fired power stations and the UK nuclear fleet.

OUTLOOK

Centrica made significant progress and delivered robust performance in 2016. We delivered our key objectives while repositioning the portfolio, improving capability and driving significant cost synergies as we build a platform for the future.

Looking ahead, we are confident that the trends we have identified are the right ones and our response ensures we are well positioned to compete and deliver for our customers. We will place increasing emphasis on developing and delivering new products and services for our customers and turn our eyes more to growth in a complex world.

We will continue to concentrate on:

- High standards of safety, compliance and conduct;
- Customer satisfaction and operational excellence;
- Cash flow growth and strategic momentum;
- Cost efficiency and simplification; and
- People and building capability.

We will continue to strengthen the company and to pay an attractive level of dividends to our shareholders.

Through all of this, we will be able to deliver for our customers, for our employees, and for our shareholders.

Iain Conn
Group Chief Executive
23 February 2017

Focused on Innovating to Satisfy the Changing Needs of our Customers

Our customers' needs are evolving. They want more than just affordable energy and choice. They also want control of their energy use and the ability to use less. Increasingly, they want to reduce their carbon footprint; and to access new on-demand services for their homes and businesses, which meet their changing needs.

We see the home as a focal point of technology-enabled services where a wide range of providers from different sectors are competing to integrate devices, service and data into a customer-oriented ecosystem.

Big data and technology advancements and innovation also have the potential to radically change the way that businesses interact with energy. They can use sophisticated, granular data to understand how to run their machines more efficiently, saving both money and energy.

This is why our focus on technology and innovation is so important. The rapid pace of change and growing digital disruption in the global energy sector are altering the way we work.

BUILDING TECHNICAL CAPABILITY TO ACHIEVE COMPETITIVE ADVANTAGE

We can only achieve competitive advantage by developing and delivering new technology-based products, offerings and solutions to residential and business customers at a competitive cost.

We have set up Centrica Innovations, a new venture to ensure Centrica identifies opportunities and is aligned to new technology that will benefit our customers. We will invest up to £20 million a year over the next five years in start-ups – up to £100 million in total – giving us access to technology and entrepreneurial resources.

We will have people scanning key technology hubs around the world – in Seattle, Houston, London, Cambridge and Tel Aviv – putting us at the forefront of the latest innovations and integrating learnings within the Group.

Centrica Innovations will also support existing in-house ventures, such as Local Heroes, our digital on-demand services proposition. It will act as an incubator for external ventures which are not yet at a maturity level for investment and require different types of support, for example, business expertise, mentoring or product piloting.

Our existing Technology & Engineering (T&E) function, established in January 2016, further strengthens our capability in this area by acting as a catalyst for innovation. It brings together our technical specialists, scientists and engineers from across the business. It maintains operational excellence through risk and quality assurance and protects our Intellectual Property. T&E provides guidance, insight and support to the business units in planning the right strategies to manage potential future technological disruption.

INVESTING IN INNOVATIVE CUSTOMER OFFERINGS

In the Internet of Things (IoT), everyday objects embedded with electronic sensors and software are connected to the internet. As customers take more control over their energy use, the demand for connected or smart devices will increase and provide opportunities to develop innovative customer solutions.

Digital business platforms

As one of the pioneers in the connected home market, Centrica continues to build a strong IoT proposition and capability.

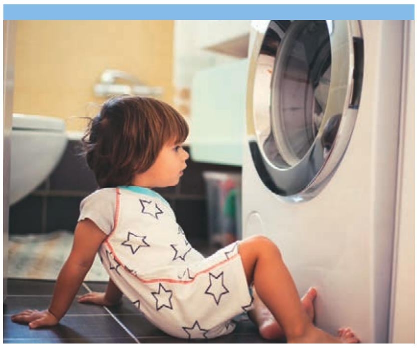
- Honeycomb is our own IoT platform supporting over 527,000 hubs and over one million devices which communicate over one billion messages every week.
- We are a UK connected home partner for Amazon's Alexa Voice Services, which allows our Hive customers to control their heating, lighting and devices simply by speaking.
- My energy live will provide our customers with access to their energy use in real-time on smart phones and tablets via our app. We have started technical trials and customer pilots.

Remote diagnostics

- Boiler IQ was the UK's first connected boiler service that uses sensors to identify and diagnose faults remotely.
- We have further strengthened our capability through the acquisition of Flowgem which specialises in the remote detection of water leaks.

Data science and analytics

Data science and analytics, together with our internally created algorithms, enable over 3.6 million of our UK and North American customers to reduce energy consumption and control their home devices.



HomeEnergy FreeTime
With our innovative tariff, customers can choose a day of the weekend to receive free electricity.

>3.6m customers

Data science and analytics, together with our internally created algorithms, enable over 3.6 million customers to reduce energy consumption and control their homes.

>527,000 Connected Home hubs installed

Sold over one million devices that communicate over one billion messages every week, supported by our Honeycomb platform.

Iain Conn Group Chief Executive
"We are working hard to understand what our customers want and to develop new technology and services to provide it."

Data analytics identifies energy use by category, such as heating appliances or lighting.

- Using Hive data along with thermal modelling and machine learning we can provide our customers with heating failure alerts which give advance notice of boiler faults or possible breakdowns.
- Io-Tahoe is an intelligent data management system, created by our own data scientists, to solve the problem of linking our many legacy systems and so unlock valuable data insights. It is perfectly adapted to the creation and management of data lakes, and enables rapid generation of customer insights and responses to solve day-to-day data challenges for businesses. Io-Tahoe is being launched externally in 2017.

Internet of Things
Building deep technology capability in the home IoT space.

Home services on-demand
Book one-off home repairs online.

Hive + Amazon Echo
Gives our Hive customers the ability to control home heating, lights and plugs though the Amazon Alexa voice assistant.

Innovative remote leak detection
Uses technology to remotely detect water leaks.

My energy live
Provides our customers with access to their energy use in real-time via our app.

Boiler IQ
Helps keeps homes running smoothly with the UK's first connected home boiler.

Smart metering

- Time-of-use tariffs create dynamic and flexible time-based energy pricing for our smart customers. HomeEnergy FreeTime is one of the first time-of-use tariffs giving customers one free day of electricity use every weekend.
- We have improved payment channels for our smart prepayment customers. The introduction of interactive voice response, app vending, online top ups and phone payments now provide our smart prepayment customers with additional payment options.
- Our smart customers are able to switch from credit to prepayment methods without a physical meter exchange.

Digital services

As part of our focus on transforming the digital customer experience, we have launched Local Heroes, a technology platform for on-demand home services. Customers are able to book one-off home repairs online and benefit from services delivered by local traders and backed by a British Gas guarantee.

INNOVATING AND DEVELOPING FUTURE ENERGY SYSTEMS

Advanced machine learning algorithms analyse energy consumption data collected by Panoramic Power's wireless and self-powered sensors. This insight allows business-to-business customers to improve significantly their energy and operational efficiency.

The acquisition of Neas Energy was a valuable addition to our Energy Marketing & Trading (EM&T) business. Its renewable energy trading and Virtual Power Plant (VPP) platform allows commercial and industrial customers to connect and aggregate their energy loads and resources, and provides grid services in decentralised electricity markets.

In 2016, we signed a funding agreement to develop a pioneering local energy market in Cornwall. Once complete, participants will use the latest smart technologies to connect to a virtual marketplace allowing them to sell their flexible energy capacity both to the grid and the wholesale energy market.

SEE THE CORNWALL PROJECT CASE STUDY ON PAGE 12

Focused on **Pioneering a New Energy Future**

Building a local energy market to put homes and businesses in control

Centrica is investing more than £1.2 billion globally to pioneer a new energy future for homes and businesses that will be smarter, greener and cheaper.

We're bringing this to life in the UK with our ground-breaking local energy market trial in Cornwall, testing a new world of flexible demand, generation and storage, and rewarding customers for being more responsive in how and when they use their energy.

Working with partners, the £19 million programme is being funded in part by a £13 million grant from the European Regional Development Fund. The three-year trial will see the installation of new technology, including battery storage and combined heat and power (CHP), in over 150 homes and businesses. Participants will then use the very latest smart technology to connect to a 'virtual marketplace' where they will sell their flexible energy capacity to both the electricity grid and the wholesale energy market.

The trial will test a variety of technologies across different users so we can learn how the platform will work in a wide range of circumstances. We would anticipate that homeowners would typically be looking for us to automate the process as much as possible, while a business might need or want more control.

For example, we might offer a homeowner a new micro-CHP unit that allows them to generate their own energy. We could then automate the process so the unit fires up at peak times of demand on the network and therefore relieves pressure on the grid. Providing this service could secure the householder a payment, resulting in lower energy bills.

On the other hand, a business owner might combine their existing on-site generation such as a back-up generator with a new energy storage unit and choose to make the decision themselves about whether to export any excess energy to the grid and make some money, or store it for use on-site at a later time.

Cornwall has been at the forefront of moves to harness renewable generation. But that has created challenges for the local grid.

Our ambition is to explore how battery storage, together with flexible demand and generation, can reduce pressure on the UK's electricity grid, avoid expensive network upgrades and support future carbon reduction.

We believe this is a unique opportunity for us to work together with local businesses and homes to open up new avenues which will give consumers more control of their energy, both here in the UK and potentially around the world.

TO FIND OUT MORE GO TO
CENTRICA.COM/CORNWALL


Control
Use
Save

Focused on **Cutting Energy Costs and Carbon Emissions**

Putting ENER-G into sport and leisure

Delivering sustainable energy solutions, technologies and cogeneration systems from 10kWe up to 10MWe fuelled by natural gas, and several different biogas, syngas and liquid fuels.

ABOUT ENER-G

Established in Salford, Greater Manchester in the 1980s, ENER-G Cogen delivers sustainable energy solutions and technologies on a business-to-business basis worldwide. ENER-G designs, manufactures, operates, maintains and finances cogeneration systems from 10kWe up to 10MWe fuelled by natural gas, and several different biogas, syngas and liquid fuels. ENER-G was acquired by Centrica in 2016.

DAVID LLOYD LEISURE

Over the past 15 years, ENER-G has helped to revolutionise the way that dozens of David Lloyd Leisure clubs throughout the UK and Ireland use their energy.

Combined heat and power (CHP) – the simultaneous generation of electricity and useful heat – is almost twice as efficient as conventional power generation because most of the heat is recovered and used on site, rather than wasted into the atmosphere.

Since its first CHP system was installed by ENER-G in 2001, David Lloyd has amassed a fleet of 57 units. As a typical example of the benefits, the David Lloyd club in Southend saved £30,000 and reduced carbon dioxide emissions by over 300 tonnes between 2013 and 2014.

The usual payback period on CHP technology varies between two and four years. But for David Lloyd the savings were immediate. ENER-G finances and installs the CHP system at no capital cost to the client, as well as operating and maintaining the CHP units throughout their life. Energy generated by the units is sold to the client at a discount.

NEWCASTLE UNITED FOOTBALL CLUB

In 2012, Newcastle United was the first football club in the world to become ‘carbon positive’, offsetting more carbon than it emits, and was awarded the prestigious Carbon Trust Standard.

By generating its own low carbon supply of power and heat using an ENER-G CHP system, the club is now reducing its carbon dioxide emissions by a further 390 tonnes per year. This equates to the environmental benefit of removing 130 cars from the road, or the carbon that would be offset by 320 acres of forest, which would cover the area of approximately 160 football pitches.

Installation of the CHP unit was challenging. There were spacing constraints within the existing plant room, which is eight storeys within the fabric of the actual stadium, so ENER-G had to deliver the CHP system in three sections and rebuild it on site.

In partnership with ENER-G, the club has adopted a range of innovative efficiency measures, including boiler optimisation, burner management, lighting upgrades, boreholes for natural pitch irrigation, smart building and energy monitoring and controls, as well as encouraging behavioural changes among the operational staff.

Our Business Model

Focused on our **business model**

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

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

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

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

Our remaining two asset businesses of Exploration & Production and Centrica Storage are operated separately and continue to play an important role in our portfolio.

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

Customer-facing strategic framework

Centrica Business

Energy supply
- Gas supply
- Electricity supply

Wholesale energy
- Trading partner
- Energy commodities & risk products
- Central Power Generation

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

Energy optimisation
- Asset optimisation
- Aggregation and optimisation of distributed energy resources ('VPP')
- Access to energy, capacity & flexible markets

Energy solutions
- Multi-technology solutions
- Design, install, maintain & service
- Business services

Centrica Consumer

Energy supply
- Gas supply
- Electricity supply

Services
- Heating & aircon installation
- Repair and maintenance
  - Heating & aircon
  - Plumbing & drains
  - Electrical wiring
  - Appliances

Peace of mind
- Home risk management
- Remote diagnostics

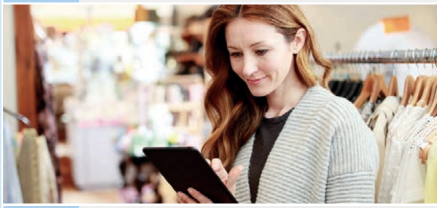
Home energy management
- Energy insight
- Energy efficiency
- Energy optimisation
- Energy solutions

Home automation
- Appliance control
- Home control

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

Customers relationships worldwide

28m



Employees worldwide

36,500

Engineers and technicians

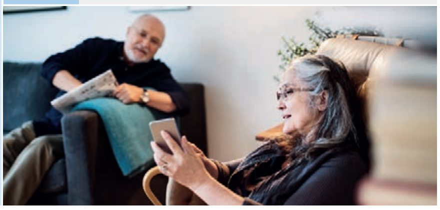
12,000

Total gas and liquids production

71.2mmboe

Vulnerable customer households helped in the UK

2.1m



Focused on **our long-term financial goals**

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

The risks to achieving the Group's strategy are monitored and reported regularly. For more information on managing our exposure to risk see our Principal Risks and Uncertainties on pages 56 to 64.

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

Metric	Target
Adjusted operating cash flow (AOCF)	3%–5% growth per annum
Dividend	Progressive in line with AOCF
Controllable costs[1]	Cost growth <inflation
Capital reinvestment	• Investment <70% of AOCF • Limited to £1 billion per annum in 2016/17
Credit rating	Strong investment grade
Return on average capital employed (post tax)	10% to 12%

Focused on **being different**

SERVING 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.

READ MORE ON PAGES 36 TO 45

TECHNOLOGY AND INNOVATION

Through our ongoing focus on technology and innovation, we are in the process of becoming a 21st century energy company giving us a key competitive advantage that will set us apart from our competitors.

READ MORE ON PAGES 10 AND 11

ENERGY SECURITY

As a result of our large customer base and energy markets trading capability, we ensure security and diversity of energy supply for millions of customers by managing a range of risks.

Focused on **delivering benefits to our stakeholders**

CUSTOMERS

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

EMPLOYEES

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

INVESTORS

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

SOCIETY

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

REGULATORS AND GOVERNMENT

Secure a more affordable energy future through engagement while contributing positively to UK GDP and tax receipts.

SUPPLIERS

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

Key Performance Indicators

We monitor our performance by measuring and tracking key performance indicators (KPIs).

Financial KPIs

Adjusted operating cash flow

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

In 2016, adjusted operating cash flow was up 19% to £2.69 billion.

Link to reward

Short-term incentive

Adjusted operating cash flow

£2,686m

▲19%

2016 £2,686m

2015 £2,253m

2014 £2,201m

Adjusted operating profit

Operating profit is one of our fundamental financial priorities. For remuneration purposes, operating profit is adjusted to a post-tax basis and by a charge on capital to set the economic profit performance targets.

Adjusted operating profit was up 4%, driven by good performance in the customer-facing businesses and favourable foreign exchange moves and cost efficiencies.

Link to reward

Long-term incentive

Adjusted operating profit

£1,515m

▲4%

2016 £1,515m

2015 £1,459m

2014 £1,657m

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to better reflect the performance of the business.

Reflecting a higher number of shares in issue due to the effects of the scrip dividend and the 7% equity placing in May 2016, adjusted basic EPS was down 2%.

Link to reward

Long-term incentive

Adjusted EPS

16.8p

▼2%

2016 16.8p

2015 17.2p

2014 18.0p

Total shareholder return (TSR)

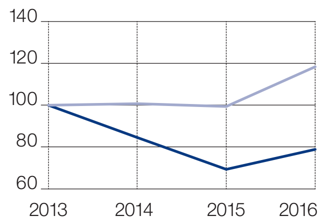
The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Centrica underperformed the FTSE 100 return index over the three-year period ending in 2016 by 44%.

Link to reward

Short and long-term incentive

TSR indices (unaudited)



Centrica return index
FTSE 100 return index
Source: Inbucon

OUR FIVE PRIORITIES

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

Non-financial KPIs

Lost time injury frequency rate (LTIFR)

Whether working in customer homes or securing energy offshore, we prioritise safety. This is not only because the consequences of unsafe behaviour can be tragic, but because we believe they can be prevented.

In 2016, our LTIFR reduced to 0.30 (high performance zone).

Link to reward

Long-term incentive

LTIFR per 200,000 hours

0.30

2016 0.30

2015 0.34

2014 0.28

Process safety

Energy can be hazardous so we focus on process safety to prevent potential major incidents, such as fires and explosions.

Two significant process safety events occurred in 2016 (high performance zone). Thankfully, the incidents resulted in no serious injuries.

In 2017, we will continue to build a strong safety culture across the business to improve performance.

Link to reward

Long-term incentive

Significant events

2

2016 2

2015 1

2014 0

Customer satisfaction

Everything we do is focused on satisfying the changing needs of our customers. To measure customer satisfaction, we use net promoter scores (NPS)[1].

In 2016, higher NPS scores were achieved across our UK, Ireland and North America customer-facing businesses. This was the result of our continued focus and investment on improving customer service systems, enhancing training for our people and building our digital capabilities.

Link to reward

Long-term incentive[2]

Home

+4 UK & Ireland

+32 North America

UK & Ireland

2016 +4

2015 -7

North America

2016 +32

2015 N/A

Business

-16 UK & Ireland

+31 North America

UK & Ireland[3]

2016 -16

2015 -19

North America

2016 +31

2015 +20

1 Brand NPS has been implemented consistently in the UK, Ireland and North America from 2016. Prior period comparatives are presented where available.

2 NPS used for Executive Remuneration arrangements are calculated using historical methodology and business areas which was approved by shareholders as part of the current Remuneration Policy.

3 Brand NPS for Business energy supply in Ireland is not currently reported. Reflecting this, the stated metric represents UK Business only.

Employee engagement

Having an engaged workforce where our people feel motivated to fulfil their potential and deliver for our customers is essential to our business success. To understand how engaged our people feel, we seek feedback on what we are doing well and where we can improve.

In 2016, employee engagement fell to 4.31 out of 6 (low performance zone). This coincided with a significant restructuring of our business and involved around 3,000 redundancies which created uncertainty and impacted morale. We remain committed to creating a great place to work and we will endeavour to improve engagement in 2017.

Link to reward

Long-term incentive

Employee engagement

4.31 out of 6

2016 4.31

2015 4.84

2014 4.79

NON FINANCIAL KPIs

Deloitte LLP reviewed selected non-financial KPIs and provided limited assurance using the International Standard on Assurance Engagements 3000 (Revised).

VIEW THE ASSURANCE STATEMENT AND BASIS OF REPORTING AT **CENTRICA.COM/ASSURANCE**

Focused on **Peace of Mind for our Customers**

"I hoped the smart meter would guide me on whether I was wasting money, which it has. To be honest, I didn't think it'd be as good as it is."

Pauline, London

"I love it. It sounds silly, but it's changed my life.

I live in Greenwich in South East London. I'm a pensioner and I live alone. I'm 67 now. I live in a two-bedroom house, and there's also my dog."

"I would say I was quite relaxed before I got a smart meter. Lights left on and telly on for background noise. I was really bad. I just wouldn't think about it because I didn't realise. Then panic when the bill came in.

The problem was the gas meter is outside the house and I couldn't find the key to do that. The electric meter inside the house is quite high up. I could get my steps out to do it and then I'd have trouble reading it. After calculating it, I'd spend all day and then forget the standing charge. It was a bit hit or miss and not very successful.

I hoped the smart meter would guide me on whether I was wasting money, which it has. To be honest, I didn't think it'd be as good as it is.

The smart meter is really easy to use, even for me as a pensioner! Everything is included in your daily charge, so you don't get hit with unexpected costs.

"It is so easy to use. You literally press a button, and it comes to the day that you're on. Then you press next, and you'll get what you used the day before. Next for what you've used all week. Press it again and you'll get the monthly total. Everything's there so clear."

The main thing is that it gives me peace of mind that everything is okay in the house. I do worry about gas leaks etc. living on my own, but I feel much more confident now that I have the smart meter.

On a number of occasions, I've gone out the house and left something burning on the gas. Because I've got the smart meter, I just glance at that and you can always tell if something is left on. It gives me real peace of mind. I think that's the best way to put it, if that doesn't sound too silly.

It is so easy to use. You literally press a button, and it comes to the day that you're on. Then you press next, and you'll get what you used the day before. Next for what you've used all week. Press it again and you'll get the monthly total. Everything's there so clear.

I know exactly what I'm spending each day. Instead of worrying about the bill, I know what I'm spending. I can budget my money better. I don't feel that I've got to hang on to money, just in case. I can spend my money more worthlessly I think!

I've made tons of changes, almost too many to list! I've turned the thermostat down, I cook two meals at once, I turn the oven off early, loads of things.

I turn off the lights when I leave the room, which I never did. They were always on. I switch off all appliances on the wall. I switch off the cooker clock, because I think, 'I have a clock, so I don't need that'. I know it's silly little things. I keep my fridge and freezer full.

I got an email about HomeEnergy FreeTime which I responded to, and then a phone call back. It was all very straightforward and easy.

I chose Sunday because I usually spend them on my own anyway. The minute it gets to 9 am, the total showing how much I'm using shuts off on the smart meter. It stays at that right until 5 pm. The dials still go round, but the actual money doesn't alter.

It makes me feel marvellous. I can check it and say, 'Oh, look at all that I'm saving'. The only thing that moves is the gas. It's made me get organized. I wouldn't do things on set days unless I knew I've got free days. It means I feel more relaxed as I get everything done on a Sunday. I don't feel guilty about leaving the washing until then so I can enjoy my week.

I do all my washing on a Sunday. I save my washing up all week. Then iron it all. So, everything's done on a Sunday. I vacuum the house while the washing's doing. And, I make sure everything that needs charging up is fully charged. My time is completely filled."

Focused on **Engaging with our Customers**

Jonathan Morgan

"**I use the Hive Active Light™ bulb as an alarm.** Comes on low light and increases brightness every ten minutes until full power using the four schedule points so **a nice gradual wake up call!**"

Charlie Rome
"With a little one around **#HowHiveHelps** is by making **a lot of things hands free**, from **automatic lights** on the landing and in the nursery for those late night nappy changes to **voice control of the heating** with Alexa and the Amazon Echo. #TheFutureIsNow."

How Hive products are helping to make everyday lives easier

Each month, we ask our Hive customers to tell us in a few sentences how Hive helps to make their everyday life that little bit easier. In return, they get the chance to win Hive products.

Rowan Warmington
"My daughter keeps leaving her TV on while she sleeps, so **I've fitted a Hive plug to her socket and I've scheduled it to go off**. Dad rules with the Hive Active Plug."

Our customers have always been highly engaged on our social channels and regularly comment or tweet with their reviews of Hive products.

In 2016, we decided that we wanted to create a platform to help amplify and reward these social interactions, so that we could make the most of this positive engagement and sentiment around Hive and our product ecosystem to drive advocacy.

#HowHiveHelps launched in February 2016 as a competition across our key social media channels, Facebook and Twitter. Each month, we ask our Hive customers to tell us in a few sentences (and possibly with images and video) how Hive helps to make their everyday life that little bit easier. In return, they get the chance to win Hive products.

The response has been overwhelmingly positive. Interestingly, #HowHiveHelps has also allowed us to identify a huge range of fascinating new uses, from the universal to the unique. For example, who knew people would use their smart bulb as a silent alarm clock?!

THE OBJECTIVES

As part of our 'Always On' social media strategy, #HowHiveHelps was developed to drive discussion of Hive products on social media and amplify and encourage customer advocacy all year round.

THE RESULTS

The campaign has been so successful that customers are now taking to Twitter and Facebook, unprompted, to tell us #HowHiveHelps on a weekly basis. We're also in the process of turning the campaign into a short video series that will be used to showcase Hive products with new audiences, using real, authentic reviews to drive consideration.

Net sentiment score (NSS) (Target: +60)

+94

Social media impressions on the Hive social channels on Twitter and Facebook

1.3m

Unique competition entries

2,016

Social engagements (likes, comments, shares and clicks)

11,270

Growth in the number of fans on Facebook and following on Twitter

4,079

Responsible Business Update

OUR FOCUS ON BEING A RESPONSIBLE BUSINESS MEANS:

- **Prioritising safety**
- **Operating ethically**
- **Helping customers save time and money**
- **Helping those in need**
- **Being a responsible employer**
- **Reducing carbon emissions**

This approach not only helps us satisfy the changing needs of our customers, but enables us to realise our goals to become a trusted corporate citizen, an employer of choice and a 21st century energy provider.

EXPLORE MORE ABOUT HOW WE ARE BEING A RESPONSIBLE BUSINESS AT **CENTRICA.COM/RESPONSIBILITY**

Prioritising safety

We have a responsibility to keep our people and customers safe which is why safety remains our top priority.

Customer safety

In 2016, we introduced improved working practices to reduce risk for customers.

35 customer incidents occurred

▼24%

Employee safety

Regrettably, one of our contractor engineers was involved in a road accident that led to their death. Two significant process safety events also occurred and resulted in no serious injuries, up from one event in 2015. The events related to the uncontrolled release of gas. We have subsequently implemented more robust inspections, maintenance routines and operating procedures.

Total recordable injury frequency rate improved to 0.98 per 200,000 hours worked

▼11%

Lost time injury frequency rate also improved to 0.30 per 200,000 hours worked

▼12%

In 2017, our focus will continue on building safety capability across the business to keep our people and customers safe through leadership training and communication.

Operating ethically

We are committed to conducting our business in an ethical and compliant manner, ensuring we respect the rights and dignity of all people.

In pursuit of the highest operational standards, we have created a new Ethics & Compliance function and an Ethics & Compliance sub-committee of the Centrica Executive Committee, which is chaired by our Group Chief Executive. This will enable us to ensure ethics and compliance are managed in the right way across the business and embedded as a natural part of how we do business.

To support this, we are defining a new company-wide Code of Conduct that will provide a strong moral compass and bind us together in common pursuit of our strategy and purpose. Our Code will be launched in 2017, alongside a new set of supporting values.

We also uphold ethical, social and environmental standards in the products and services we buy.

In 2016, we assessed 73 suppliers on these issues, resulting in an average supplier sustainability risk score of 57 (low risk). This is better than the multi-industry average of 42 (medium risk)[1] and is an improvement on our 2015 score of 54 (low risk). If suppliers receive a medium or high risk rating, we work with them to improve performance.

Modern Slavery Act

As part of the UK's Modern Slavery Act, we have taken action to assess risks relating to forced labour in our business and supply chain. We take the issue very seriously and our commitment will be published in a Modern Slavery Act Statement in 2017.

1 EcoVadis, 2016. A score near 100 is low risk.

Helping customers save time and money

We want to make our customers' lives easier by improving our service and giving them greater control over their energy, while keeping bills as low as possible.

PROVIDING EXCELLENT CUSTOMER SERVICE

We are focused on delivering an excellent service that makes our customers' lives easier. Over time, this will improve customer satisfaction and make our customers want to stay with us for longer.

Towards this in UK Home, we have:

- Committed £50 million to advance customer service during 2015–17.
- Improved call scripts and increased training days by 24% since 2013.
- Enhanced 'moving home' processes and conducted pro-active re-assessments of direct debit payments.

Despite these improvements, challenges in resourcing were experienced as a result of our business restructuring while collective switching put pressure on operational systems.

After tackling issues associated with the implementation of a new customer service system in UK Business, our bill accuracy, call waiting times and speed of resolution, now surpass prior performance. The £40 million upgrade, which combined more than 100 outdated legacy systems into one, was extremely complex. Following investigations by Ofgem into the impact of the transition to the new IT system on business customers, and into the roll-out of advanced meters for certain categories of business customers, we have agreed to pay £14 million in total in redress distributed across affected micro-business customers, the charity Money Advice Trust, which provides a business debt line service to help customers in need, and to fund energy efficiency advice and related activities through the Carbon Trust.

In North America Home, we provided additional training for call centre agents. We also introduced a new call-routing system which enables calls from customers to reach agents with the right expertise, enhancing the resolution of queries.

Meanwhile, in Ireland, customer service levels improved and complaints decreased.

Customer satisfaction

To measure customer satisfaction, we use net promoter scores (NPS).[1]

In UK & Ireland Home, NPS improved

▲+4

(2015: -7)

In UK & Ireland Business[2], NPS increased

▲-16

(2015: -19)

In North America Home, NPS was

+32

(2015: n/a)

In North America Business, NPS improved

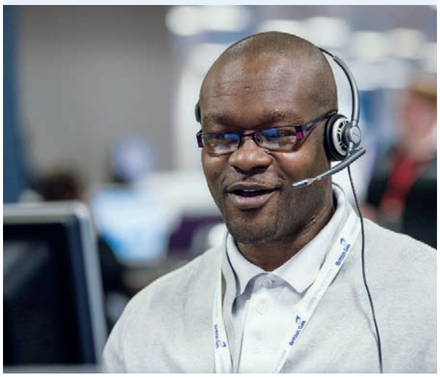
▲+31

(2015: +20)

BUSINESS REVIEW

From customer accounts to complaints, explore our service performance in detail.

READ MORE ON PAGES 36 TO 41



British Gas was one of only two major British suppliers to cut prices three times in two years on its standard tariff, leading to a

▼14%

cumulative reduction in household gas prices alongside energy bill savings for average dual fuel customers of

▼£175

UK Home profit margin after tax has remained roughly the same over the last five years

~5%

BEING CLEAR AND COMPETITIVE ON PRICING

Energy bills can be a real worry for hard-pressed households. Despite 83% of the energy bill being made up of costs we cannot fully control, such as wholesale energy costs, distribution charges and social and environmental taxes, we are committed to keeping our prices competitive.

In addition to reducing energy prices (see left), British Gas committed to freeze its standard tariff for the entire winter 2016/17 period through to August 2017. In spite of increases in external costs, British Gas has consistently offered one of the cheapest standard energy deals available over the last year, made possible by significantly reducing our own costs. Our standard tariff continues to be cheaper than 95% of similar contracts in the market.

In 2016, Bord Gáis Energy also cut household gas and electricity costs by 2.5% and 5% respectively, making it the only supplier in the Republic of Ireland to have reduced prices three times since February 2015.

We continue to engage with the UK Government and regulators on securing a more affordable and stable energy future by improving UK energy policy and competition. We are also actively testing the role of Distributed Energy & Power (DE&P) in building smarter energy systems, which have the potential to save the UK £8 billion a year by 2030.[3]

TECHNOLOGY AND INNOVATION

Customers want choice; they want control and they want to use less energy. Our innovative products and services can make this a reality.

READ MORE ON PAGES 10 AND 11

Amazon Echo + Hive
Conveniently control Hive's family of products via Amazon Alexa Voice Service.

Investment in our Connected Home business 2015–20

£500m

Connected Home hubs installed

>527,000

Percentage of customers with smart thermostats who feel more in control over their heating

88%[4]

Smart meters delivered to homes and businesses in the UK

3.9m

Smart meters installed as a proportion of the UK's total number of installations

>70%[5]

1 Brand NPS has been implemented consistently in the UK, Ireland and North America from 2016. Prior period comparatives are presented where available.
2 Brand NPS for Business energy supply in Ireland is not currently reported. Reflecting this, the stated metric represents UK Business only.
3 National Infrastructure Commission, 2016.
4 UK Hive satisfaction survey based on feedback from around 3,600 customers, March – November 2016.
5 Department of Business, Energy and Industry Strategy, September 2016.

Helping those in need

We are making a difference in society by supporting vulnerable people with their energy needs and helping local communities thrive.

Vulnerable customer households helped in the UK

2.1m

Amount spent supporting vulnerable people with their energy needs through mandatory and voluntary initiatives

£196m

£106 million invested in mandatory and voluntary contributions to the British Gas Energy Trust since 2004, helping over

195,000 people

Through Ignite, we have committed

£8m

alongside

27,600

hours of employee expertise in start-ups which has helped

41,700

people since 2013

HELPING PEOPLE WITH THEIR ENERGY BILLS

While we strive to keep bills as low as possible, we recognise some customers struggle to pay for energy. Identifying customers who need extra support is therefore key. That is why the vast majority of our call centre advisers receive vulnerability training which enables them to provide bill assistance, debt advice and energy efficiency support.

In 2016, we gave bill assistance payments of £140 each to more than 650,000 vulnerable customers as part of the mandatory Warm Home Discount scheme. Meanwhile in North America, nearly 3,700 customers received grants of up to $600 (£450) through our voluntary Neighbor-to-Neighbor bill assistance programme in Texas.

We fund the British Gas Energy Trust, an independent charity, with mandatory and voluntary contributions. In 2016, the Trust helped nearly 22,600 people get back on their feet with invaluable debt advice and grants.

We are also improving the energy efficiency of homes through the Energy Company Obligation. This has enabled us to save an estimated £68 million on energy bills for vulnerable people since 2013.

MAKING ENERGY MORE ACCESSIBLE

We decided to become a dementia-friendly organisation in 2016. As part of this, we encouraged employees to take part in the Dementia Friends programme, which is the biggest ever initiative to change the perception of dementia and will help improve our support for people living with the condition. By the end of 2016, over 5,000 employees had become Dementia Friends and we are on track to reach 10,000 Friends by May 2017. As a result of the programme, we have reviewed our Power of Attorney process, making it easier for customers and their loved ones to access and manage their energy.

In 2017, we will roll-out a video relay service that will enable British Sign Language users to communicate with us like never before.

CREATING IMPACT IN COMMUNITIES

Through Ignite, the UK's first corporate impact investment fund focused on energy, we are investing in entrepreneurs with innovative energy ideas that make a difference in society. So far, we have committed £8 million to a range of causes from alleviating fuel poverty using free solar electricity, to delivering energy education programmes for young people while at the same time, generating a sustainable biofuel.

> Ignite was cited by the UK Government as a blueprint for how business can generate value in society.

During 2016, British Gas continued its partnership with Shelter to raise standards in the private rented sector where over a third of homes fail to meet the UK Government's Decent Homes Standard. Building on successful campaign wins that secured improvements for an estimated four million people through better electrical and carbon monoxide safety as well as protection from retaliatory evictions, we supported Shelter's development of the Living Home Standard. The Standard defines what everybody needs from a home to live comfortably and we hope it will help deliver better homes for Britain by driving up living standards.

Being a responsible employer

Creating a great place to work is essential for attracting and retaining the highly motivated and skilled workforce that can deliver for our customers.

SECURING A TALENT PIPELINE

We are building new opportunities to attract and retain diverse talent that will support the growth of our business, enabling us to deliver a better service for customers and plug the shortage of skills in our sector.

In 2016, we:

- Invested £35 million in training 8,000 British Gas engineers and over 1,220 apprentices.
- Trained 130 technicians through Direct Energy partnerships with local schools.
- Developed workplace skills for 190 people on our global graduate programmes.

In 2017, we intend to expand our UK apprenticeship intake, with a particular focus on customer service.

We are inspiring future generations to pursue science, technology, engineering and maths (STEM) careers. Through our British Gas Generation Green education programme, over 460,000 young people have learnt to think more innovatively about energy since 2010. Similarly, Direct Energy will launch its own school programme in 2017, using Panoramic Power's wireless sensors that show how energy could be used more sustainably.

We also reward our people with fair remuneration which includes paying at least the Living Wage to employees in the UK.

GENERATING SKILLS THROUGH VOLUNTEERING

We provide our 36,500 employees with up to two days paid leave to volunteer each year, which not only makes a valuable difference in local communities, but provides an exciting opportunity to learn new skills.

In 2017, we will continue to raise awareness about our volunteering programmes and we plan to extend our volunteering portal across the business to boost involvement.

Total volunteering hours

▲53,513

(2015: 52,588)

EMPLOYEE ENGAGEMENT

Our ability to provide an excellent service and retain our people is inextricably linked to employee engagement. To understand how employees feel, we conduct an annual survey.

READ MORE ON PAGE 19

MOVEMENT TO WORK

Through Movement to Work, we are helping young, unemployed people secure workplace skills. Since 2014, we have provided 700 training placements, with 60% of those taking part going on to secure permanent employment or further training. We will provide 300 additional places by the end of 2017.

READ MORE ON PAGE 32

DIVERSITY

We embrace workplace diversity because having a range of backgrounds and perspectives enables us to better serve the changing needs of our customers. Our sector, however, traditionally lacks diversity so we are working hard to address the issue.

READ MORE ON PAGE 72

Our employees

Female

27%[1]

Female senior management

26%

Ethnic minorities

24%[2]

Part-time

3%

We are also proud to have launched Spectrum, our Lesbian, Gay, Bi-Sexual & Transgender Plus (LGBT+) Network in 2016, providing a vital source of support for employees and feedback for our continual improvement.

1 Excluding the Board and senior management.
2 58% of employees disclosed data.

Reducing carbon emissions

With around 90% of our carbon emissions arising from customer consumption of energy, the greatest role we can play in tackling climate change is to empower our customers to cut their carbon while reducing emissions across our own business.

HELPING HOMES CUT CARBON

We are helping customers reduce their energy consumption and carbon emissions through innovative and energy efficient products that give customers greater control and choice (see pages 10 and 11).

In the UK, we calculate that we have enabled customers to save nearly 27mtCO_2e from products installed since 2008 – equivalent to the average annual emissions of seven million UK homes.[1]

In North America, we focused on reducing carbon emissions through renewable solar generation. While 2016 was a challenging year for the solar market, we completed residential installations that generated 21MWp, up slightly from 18MWp in 2015.

GIVING LARGE-SCALE USERS CONTROL

Our global DE&P business is revolutionising our relationship with businesses and other large-scale energy users, giving them the power to operate and optimise their energy. We do this by bringing together flexible and local renewable generation, storage and energy efficiency measures alongside smart building management systems. This not only lowers carbon emissions and cuts bills, but reduces pressure on the electricity network.

To develop these capabilities further, in 2016 we invested:

- £19 million with partners in a pioneering local energy market trial in Cornwall that will explore the role of distributed energy across more than 150 homes and businesses over three years. We will test how participants interact with the latest technology and develop a virtual market place that provides a platform to buy and sell energy to the grid and wholesale energy market (see page 12).
- £149 million to acquire ENER-G Cogen, a supplier of combined heat and power (CHP) solutions that allow customers to reduce costs and carbon emissions by generating heat and power on site.
- £210 million to acquire Neas Energy, providing trading optimisation for customers with decentralised assets, including wind farms and CHP plants.

Our carbon emissions

	2016	2015
Total carbon emissions	**5,119,709tCO_2e**	4,392,965tCO_2e[3]
Scope 1	**5,032,493tCO_2e**	4,282,138tCO_2e[3]
Scope 2	**87,216tCO_2e**	110,827tCO_2e[3]
Total carbon intensity by revenue	**189tCO_2e/£m**	157tCO_2e/£m

We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA's Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines.

REDUCING OUR CARBON FOOTPRINT

We emit 63% less carbon for every pound of revenue raised compared to 2010, primarily due to a reduction in our gas fired power generation.

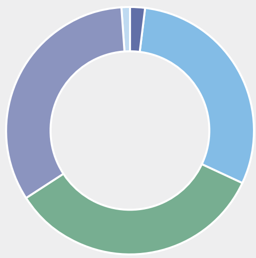
In 2015/16, the power we sold to customers had the lowest carbon intensity among major UK electricity suppliers at 137gCO_2/kWh; well below the UK average of 290gCO_2/kWh.[2]

We are making good progress against our Central Power Generation (CPG) carbon intensity target of 200gCO_2/kWh by 2020. While our CPG carbon intensity increased 17% to 137gCO_2/kWh, the rise was due to power generation volumes recovering following outages in 2015 and was the main factor for the increase in our total carbon emissions.

We also remain on target to secure a 20% reduction in our core internal carbon footprint by 2025, having achieved an 8% reduction compared to 2015.

We are recognised as leaders in addressing climate change by CDP, an international non-governmental organisation (NGO) reporting to investors representing around a third of the world's capital, who gave us an 'A' grade for action and disclosure.[4]

Our UK fuel mix of power sold



Coal	2%
Gas	30%
Nuclear	34%
Renewables	33%
Other	1%

1 Ofgem 2015 household annual usage and 2016 Defra greenhouse gas emission conversion factors.
2 Electricityinfo.org, 2015/16.
3 Restated due to availability of improved data.
4 Awarded in 2016, based on 2015 data.

Our View on Taxation

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

OUR APPROACH

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

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

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

TAXES PAID IN THE UK

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

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

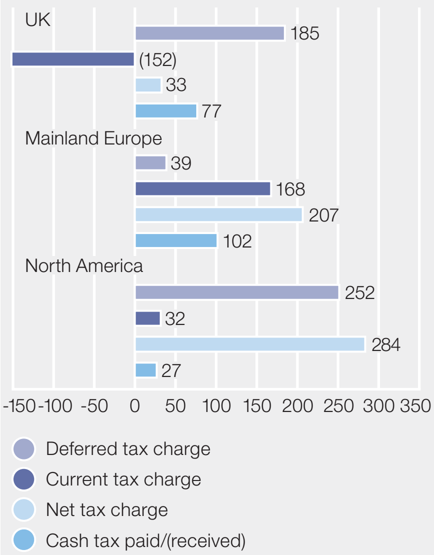
We actively engage in consultation with government on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

TAXES PAID OUTSIDE THE UK

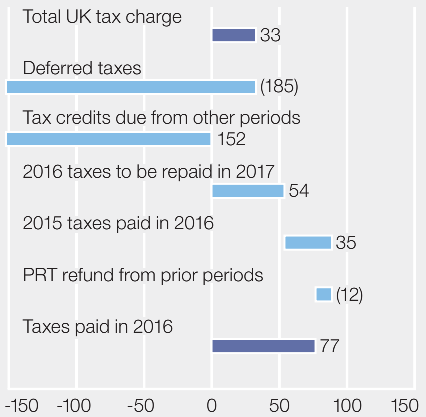
Outside the UK the Group's businesses are subject to corporate income tax rates in excess of the UK Corporation Tax Rate (see below).

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

Tax charge v. cash tax by region 2016 £m



Breakdown of UK tax charge £m



Payments made on account in the early part of 2016 are expected to be repayable in 2017 as a consequence of mark to market movements in the latter part of 2016.

Statutory tax rates on profits

Group activities	%
UK supply of energy and services	20
UK oil and gas production	40
Norway oil and gas production	78
Netherlands oil and gas production	50
United States supply of energy and services	35
Canada supply of energy and services and oil and gas production	26
Denmark energy services	22
Republic of Ireland supply of energy and services	12.5

As at December 2016.

Focused on **Training the Employees of the Future**

Finding a way into work through an apprenticeship scheme

Centrica is proud to be part of Movement to Work, an industry-wide initiative, working with other leading organisations, to tackle youth unemployment in the UK.

Over the last three years, Centrica has supported 700 young people who were not in education or employment by providing training and work placements. 90% of those who took part said that their confidence and understanding of the work place increased and that they now felt ready to find a role. 60% of those taking part have gone on to secure a permanent job or further training as a result. We have pledged to do even more in 2017 by providing a further 300 work places, and to integrate support for ‘Movement to Work’ more closely into our successful apprenticeship scheme.

AIMEE HEARN
Customer Service Adviser, British Gas

Aimee had been out of work for six months and was struggling to find a job, sapping her self-confidence.

“For months, I would visit my local job centre really regularly, but struggled to find anything. Applying for jobs and being turned down for interviews made life very hard and I struggled with my self-confidence. When you’re unemployed, people look down on you. All you need is for someone to give you a chance.”

Her job centre adviser suggested applying for a British Gas apprenticeship through the ‘Movement to Work’ scheme. British Gas’ parent company Centrica is proud to be part of this industry-wide initiative, working with other leading organisations, including M&S, Starbucks, BT, Unilever, Accenture and BAE Systems, to tackle youth unemployment in the UK.

After completing the ‘Movement to Work’ eight week pre-employment training, Aimee was accepted onto the British Gas apprenticeship scheme, which she completed in July 2015. She now has a permanent, full-time Customer Service Adviser role with British Gas. It’s an uplifting story that Centrica hopes will inspire more young people.

FOR MORE INFORMATION ABOUT MOVEMENT TO WORK, VISIT: **MOVEMENTTOWORK.COM**

TO LEARN ABOUT CENTRICA’S APPRENTICESHIP SCHEME, AND TO APPLY, VISIT: **CENTRICA.COM/CAREERS/APPRENTICE-TRAINEES/ABOUT-APPRENTICES-TRAINEES**


Learn
Develop
Engage

Focused on **Training our Employees**

> "I really am a people person and learning about helping customers every day and some of the responses from them are what the job is about, it makes you feel good about yourself knowing you can help others".

Rewarding careers serving our customers

Before joining British Gas, Ryannie, 16, was at school and volunteered at a school for children with disabilities. She had always thought about staying on in education but wasn't sure what her options were.

Ryannie had done a few weeks of casual work and knew that she wanted more for her education and career, but wasn't sure what that was.

"If I'm honest I was going to go to university to be a physiotherapist, but the more I thought about it, the more I knew that university wasn't really for me. Even though I had no idea what it was like being an apprentice in a contact centre, it's been one of the best things I've done, as I can earn money whilst studying. I also feel like I have a career."

Ryannie said, "I really am a people person and learning about helping customers every day and some of the responses from them are what the job is about, it makes you feel good about yourself knowing you can help others".

"I applied for the apprenticeship because I think it is exciting to be a part of something completely different from what I thought I wanted to do. Now I've been here for a few months it's definitely the opportunity for me as I can develop and help customers. I can also make a career in customer service."

Ryannie's team are one of the top performing teams in Edinburgh and are making a key difference to the Centrica service business by driving customer satisfaction scores and regulatory adherence.

The new Customer Service Trailblazer Apprenticeship has been created by leading service employers, including British Gas, to ensure we meet and exceed the needs of UK customers, learners and employers, both now and in the future.


Engage
Learn
Develop

Business Review
Energy Supply & Services – UK & Ireland

Supplying energy and services to residential and business customers in the UK and the Republic of Ireland through our new business segments: UK Home, UK Business and Ireland.

HIGHLIGHTS

UK Home customer accounts

21.8m

UK Business customer accounts

0.72m

Ireland customer accounts

0.69m

ENERGY SUPPLY & SERVICES – UK & IRELAND

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

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

UK HOME

Against a competitive backdrop, excellent customer service is a core requisite for retaining and winning new customers. During the year we took actions to improve employee training, pro-actively re-assessed direct debit payments, implemented a more customer friendly 'moving home' process and improved call scripts. This all led to lower complaints in both energy supply and services, and Brand NPS improved by 10 points to move into positive territory at +3. Engineer NPS remains high at +69.

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

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

UK Home adjusted operating profit fell 8% to £810 million, which includes energy supply operating profit of £553 million, down 11%. This reduction in energy supply profitability reflects a changing product mix and lower customer account holdings partially offset by efficiency benefits. However, adjusted operating cash flow increased significantly due to strong working capital management.

UK BUSINESS

UK Business returned to profitability in 2016 following an operating loss in 2015, with billing issues associated with the migration of customer accounts and associated data on to a new billing and CRM system from multiple legacy systems now fully resolved. Billing accuracy and timeliness are now significantly better than under the old systems, and as a result, complaints fell by around a quarter

Energy supply complaints down

▼31%

UK Home brand NPS up

▲10 points

compared to 2015 and operating costs returned to pre-implementation levels. Following investigations by Ofgem into the impact of the transition to a new IT system on business customers, and into the roll-out of advanced meters for certain categories of business customers, we have agreed to pay £14 million in total in redress distributed across affected micro-business customers, the charity Money Advice Trust, which provides a business debt line service to help customers in need, and to fund energy efficiency advice and related activities through the Carbon Trust.

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

IRELAND

Our Irish business, Bord Gáis Energy, delivered a strong result in 2016. Customer service levels improved with complaints down reflecting investment in customer agent training and Brand NPS increasing to +20.[1] We also delivered 4% growth in customer accounts, which reflected our competitive pricing position resulting from a reduction in gas and electricity prices for customers in Q4 of 2016.

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

1 Based on NPS relating to residential customer satisfaction.

Business Review
Energy Supply & Services – North America

Supplying energy and services to residential and business customers in North America through our new business segments: North America Home and North America Business.

HIGHLIGHTS

North America Home customer accounts
3.8m

North America Business customer accounts
0.59m

ENERGY SUPPLY & SERVICES – NORTH AMERICA

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

NORTH AMERICA HOME

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

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

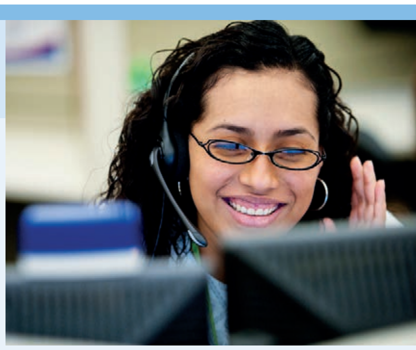
We are also looking to expand into new geographies as opportunities open up and during the year we started providing energy in New Hampshire and Rhode Island, while we opened 78 new services franchise territories. Energy customer retention improved by 3ppt, however the total number of energy supply customer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

North America Home: Brand NPS over the year was

+32

The number of paid annuity contracts grew by 9%, with increased conversion from trial to paid contracts.

▲9%



Excellent customer service is a core requisite for retaining and winning new customers in North America.

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

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

NORTH AMERICA BUSINESS

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

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

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

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

Business Review **Connected Home**

In Connected Home, our Hive smart thermostat and other services help our customers manage their energy use in the UK, the Republic of Ireland, Canada and the United States. We plan to build a global business providing new and innovative solutions for consumers across the world.

READ MORE ON PAGES 22 AND 23

HIGHLIGHTS

Cumulative hubs installed

527,000

New products launched

5

CONNECTED HOME

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

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

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

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

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

Customers love our Hive products so much that they are keen to share their stories.

READ MORE ON PAGES 22 AND 23

Our energy insight products, My Energy in the UK and Direct Your Energy in North America, are now available to more than 3.6 million customers.

Our connected home customer offer is being developed around three categories – peace of mind, home energy management and home automation.

READ MORE ON PAGE 10

Business Review
Distributed Energy & Power

We are an international business in which we develop integrated energy solutions for commercial and industrial customers, including flexible generation, energy management systems and battery storage. We help our customers take control and turn their energy into an opportunity.

READ MORE ON PAGES 12 TO 15

HIGHLIGHTS

Flexible distributed energy capacity under management

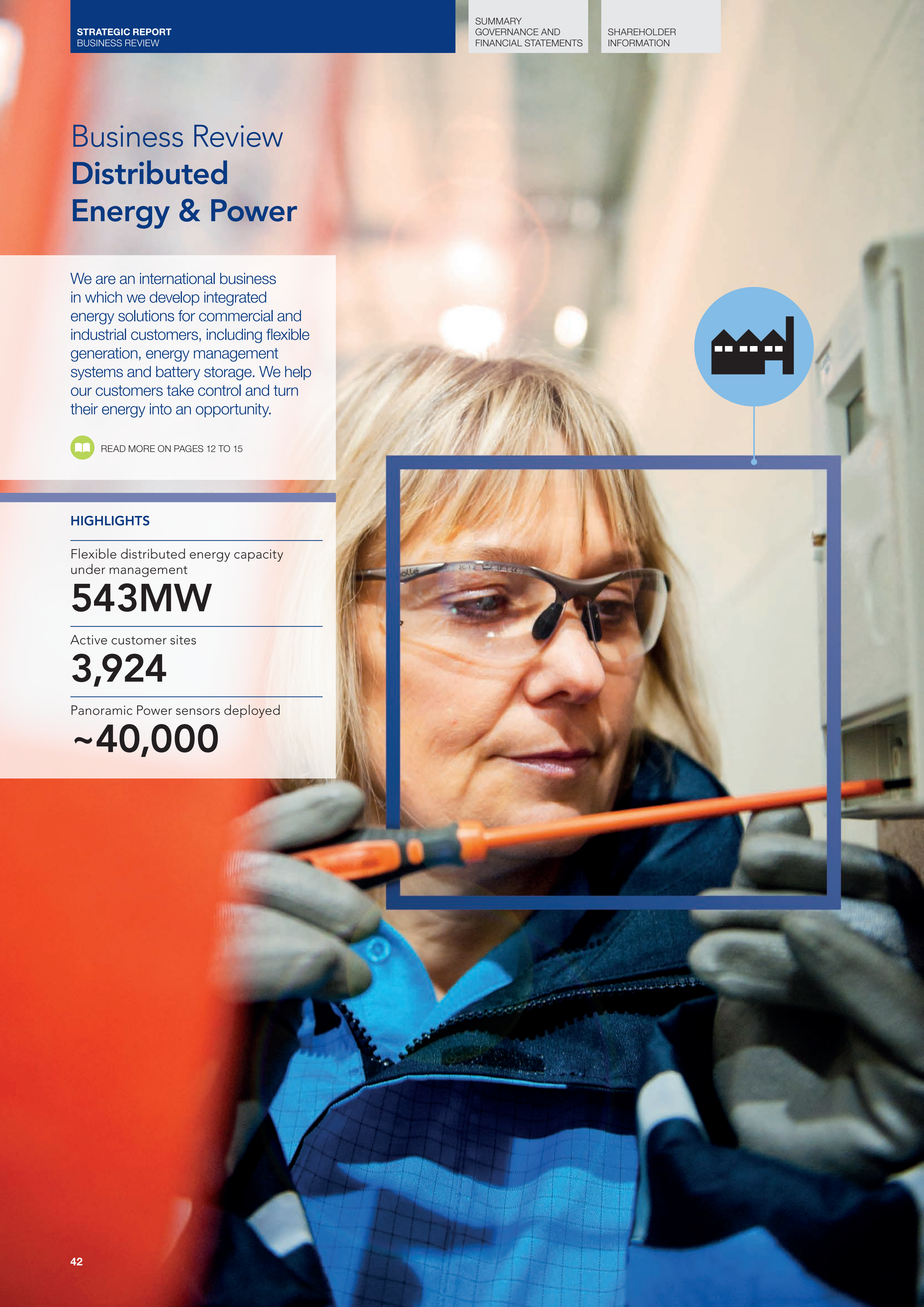
543MW

Active customer sites

3,924

Panoramic Power sensors deployed

~40,000



DISTRIBUTED ENERGY & POWER

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

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

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

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

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

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

ENER-G Cogen
We acquired ENER-G Cogen in May 2016 enhancing our CHP capabilities.

Barry, Brigg and Peterborough were all awarded one year capacity contracts in the Early Capacity Auction.

Business Review
Energy Marketing & Trading

Operating in UK and European energy markets, we provide risk management and wholesale market access for customers and across the Group. We have a strengthening global presence in LNG.

HIGHLIGHTS

Adjusted operating profit

▲ £161m

Neas Energy serves customers with installed capacity of approximately

8,600MW

ENERGY MARKETING & TRADING

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

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

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

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

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

Overall, EM&T adjusted operating profit more than doubled to £161 million, reflecting strong trading performance, the optimisation of flexible gas contracts between 2015–16 and 2016–17, and the strong initial contribution from the Neas Energy acquisition. Adjusted operating cash flow fell 20% reflecting the timing of internal tax payments and movements in working capital.

Neas Energy

We acquired Neas Energy, one of Europe's leading providers of risk management and revenue optimisation services for decentralised third-party owned assets.

We have a strengthening global presence in LNG.

Business Review
Exploration & Production

Targeting production of between 40 to 50 million barrels of oil equivalent per year focused on the UK, the Netherlands and Norway.

HIGHLIGHTS

Total gas and liquids production

71.2mmboe

Unit lifting and other cash production costs[1] reduced 19% to

£10.1/boe

Free cash flow

£166m

EXPLORATION & PRODUCTION

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

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

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

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

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

The business delivered very strong cost reduction performance during 2016. Unit lifting and other cash production costs[1] were 15% lower in Europe and 39% lower in the Americas, despite reduced production, and total lifting and other cash production costs were £352 million or 33% lower when compared to a 2014 baseline. This includes the absorption of incremental costs from new projects such as Valemon. We have delivered initiatives across all our assets to make these savings, including supply chain improvements and collaboration with other operators to drive efficiency. In 2016 we also moved the organisation from a regional to an asset-based structure, reducing duplication and enabling reductions in headcount across all levels.

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

Kvitebjørn
Further infill wells are planned at Kvitebjørn field which is situated in block 34/11 of the Tampen area in the North Sea, Norway.

Cygnus
At the end of 2016, the first gas flowed from Cygnus, the UK North Sea's largest producing gas field.

1 Lifting and other cash production costs are total operating costs and cost of sales excluding depreciation and amortisation, dry hole costs, exploration costs and profits on disposal.

Business Review
Central Power Generation

We are rationalising our thermal power generation portfolio with a view to simplification and cost reduction while retaining low cost optionality.

HIGHLIGHTS

Best performance of nuclear since acquisition – our share of generation volume was

13.0TWh

CCGT Reliability

89%

CENTRAL POWER GENERATION

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

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

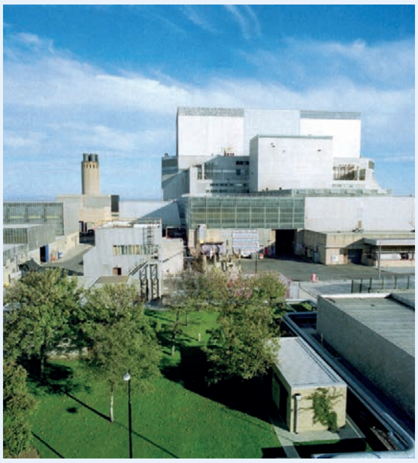
Our share of nuclear generation volumes was up 7% to 13.0TWh, the highest output since we purchased our interest in the fleet in 2009. This reflected excellent operational performance, with limited unplanned outages, and the impact of a return to full service of three of the four reactors that had been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

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

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

Langage
Langage in Devon was completed in 2010 and is one of the most efficient generators of its type in the world.

South Humber Bank
Gas fired generation volumes were 65% higher in 2016 than in 2015, with improved plant reliability.



Nuclear
We have a 20% interest in eight nuclear power stations generating electricity to the grid in the UK.

Business Review
Centrica Storage

The Group operates the Rough gas storage facility, which is a strategic storage asset for the UK.

HIGHLIGHTS

Limited stock in Rough for the first part of 2016 was

33–36TWh

CENTRICA STORAGE

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

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

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

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

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

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

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

Easington terminal
The Easington terminal processes gas from the Rough gas storage facility.

Rough
The Rough gas storage facility is the largest in the UK, able to meet approximately 10% of the UK's winter peak day demand.

Group Financial Review

Profit for the year increased to £885 million and after adjusting for losses attributable to non-controlling interests, adjusted earnings increased by 4% to £895 million.

GROUP REVENUE

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

OPERATING PROFIT

From 1 January 2016 new reporting segments are in place. 2015 comparatives have been restated accordingly. Within the statement, reference is made to a number of different profit measures, as shown on page 53.

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

GROUP FINANCE CHARGE AND TAX

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

Business performance taxation on profit was broadly flat at £282 million (2015: £286 million) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £298 million (2015: £294 million). The resultant adjusted tax rate for the Group was 25% (2015: 26%). An effective tax rate calculation is shown on page 53.

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

GROUP EARNINGS AND DIVIDEND

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

The statutory profit attributable to shareholders for the period was £1,672 million (2015: loss of £747 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2015 is principally due to a £27 million net exceptional credit (2015: charge of £1,846 million) and a higher net gain from certain re-measurements of £750 million (2015: £129 million). The Group reported a statutory basic EPS of 31.4 pence (2015: loss of 14.9 pence).

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

Group revenue
£27.1bn
2015: £28.0bn
▼ 3%

Adjusted operating profit
£1,515m
2015: £1,459m
▲ 4%

Adjusted basic earnings per share (EPS)
16.8p
2015: 17.2p
▼ 2%

Statutory operating profit/(loss)
£2,486m
2015: £(857)m
● nm

Full year dividend per share
12.0p
2015: 12.0p
▶ 0%

Basic earnings per share
31.4p
2015: (14.9p)
● nm

Adjusted effective tax rate
25%
2015: 26%
▼ 1ppt

> "Adjusted operating cash flow was up 19% to £2,686 million."

Jeff Bell
Group Chief
Financial Officer

Adjusted operating cash flow	Adjusted earnings	Group net debt
£2,686m	**£895m**	**£3.5bn**
2015: £2,253m	2015: £863m	2015: £4,747m
▲ 19%	▲ 4%	▼ 27%

Operating profit

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

Group tax charge

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

Group Financial Review
continued

Operating cash flow

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

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

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

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

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

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

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

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

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

ACQUISITIONS AND DISPOSALS

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

In March, the Group completed the sale of the Glens of Foudland, Lynn and Inner Dowsing (GLID) wind farm joint venture for £116 million, including £22 million for outstanding interest due to the Group.

"The Group's net debt at the end of 2016 fell to £3,473 million."

Jeff Bell
Group Chief Financial Officer

EXCEPTIONAL ITEMS

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

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

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

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

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

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax gain of £1,030 million (2015: £103 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.

EVENTS AFTER THE BALANCE SHEET DATE

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

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

ACCOUNTING POLICIES

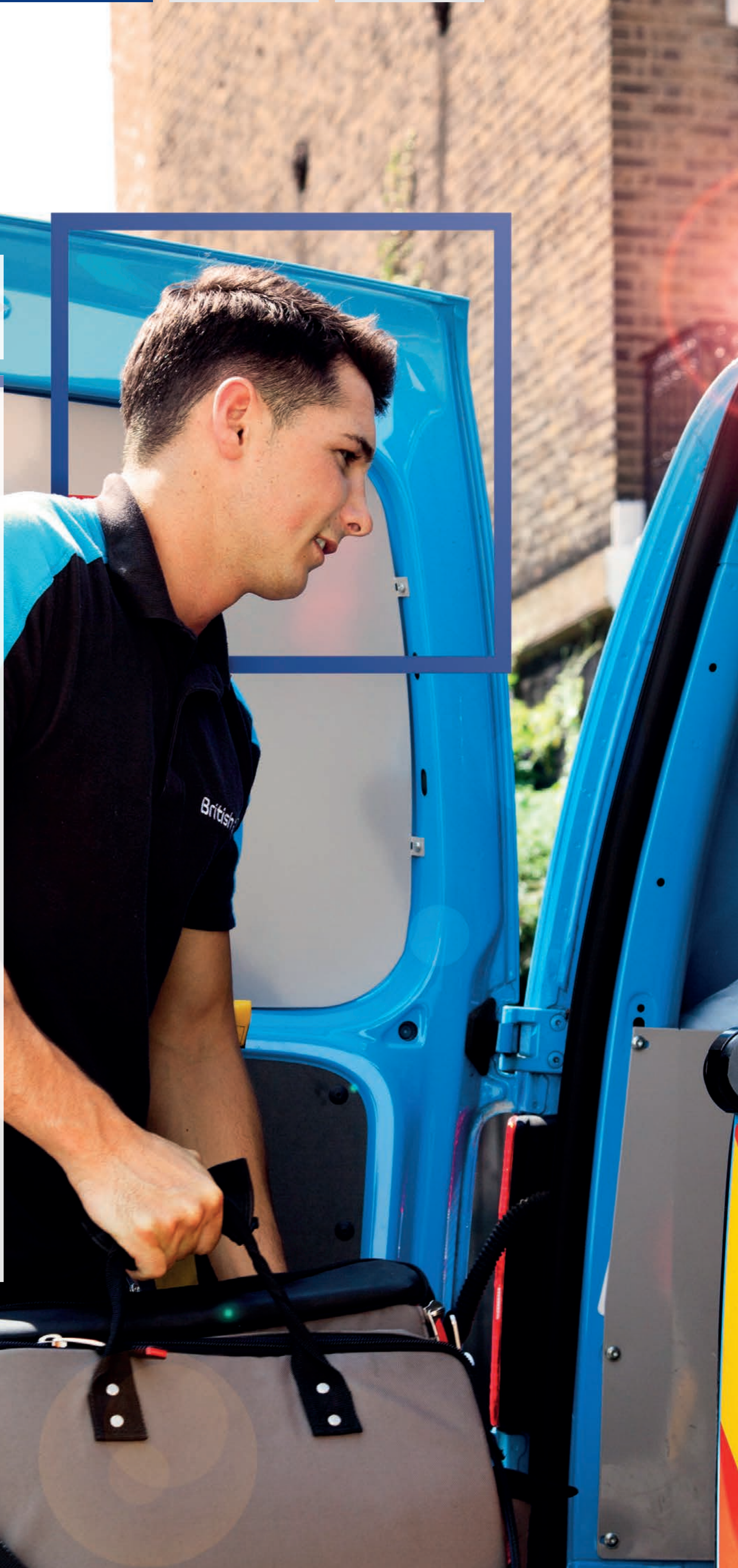
UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are set out on pages 56 to 64.

Our Principal Risks and Uncertainties

Managing our risks and uncertainties is key to achieving our priorities.



LINKS TO STRATEGY

In line with our strategy we are concentrating more investment on our customer-facing businesses organised into the two global customer-facing divisions of Centrica Consumer and Centrica Business. We are focused on delivering high levels of customer service, improving customer engagement and loyalty, and developing innovative products, offers and solutions for both residential and business customers, underpinned by investment in technology. Our asset businesses of Exploration and Production and Centrica Storage continue to play an important role in our portfolio providing cash flow diversity and balance sheet strength.

Our activities for near-term implementation and delivery of our strategy are framed around the five priorities below. These priorities are a lens through which we assess our risks and discussions around risk appetite. Each priority has associated risks, which are managed as part of our overall system of risk management and internal control.

Our five priorities

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

MANAGING THE RISKS TO THE DELIVERY OF OUR PRIORITIES

Risk management is fundamental to the way the Group is governed and managed. Our system of risk management and internal control comprises the following elements that are assessed for effectiveness annually:

- **Business Principles:** sets our expected behaviours across the organisation.
- **Enterprise Risk Framework:** incorporates the principal risks within the Group Risk Universe, as outlined below.
- **Board and Committees' governance:** committees are structured to be aligned with the Principal Risks identified, as outlined below.
- **Executive management oversight:** establishing appropriate executive processes to ensure appropriate planning and performance management.
- **Operational management accountability and certification:** represents the first line accountability for the risk and control environment.
- **Delegations of Authority:** structure within which accountability is delegated through the organisation in accordance with identified risk appetite.
- **Management systems:** the detailed Policies, Standards and Procedures establishing the requirement for process level controls that are monitored throughout the organisation.
- **Assurance providers:** second and third line assurance provided to ensure that Policies, Standards and Procedures are being followed and that risks are being mitigated in line with risk appetite.

The Group's strategic review in 2015 and its implementation in 2016 highlighted emerging risks and provided an opportunity to simplify and standardise how significant risks are managed. We have identified the differing nature of our risks including:

- **Risks that require standards** where our tolerance for error is generally very low. This will include Health, Safety, Environment and Security, Legal and Regulatory Compliance, Financial Processing and Reporting, Information Systems and Data Security, and Ethical and Behavioural Standards. For these risks there will be management systems providing clearly prescribed standards with ring-fenced functional monitoring and assurance.
- **Risks where judgement** is required within a range of acceptable outcomes in order to deliver our priorities. This includes areas where we need to take a certain level of risk such as in commodity trading and our investment in the growth areas of the business.
- **Risks resulting from external factors** where we have limited influence over their occurrence, but can influence the impact on our business through our actions.

ASSESSING OUR PRINCIPAL RISKS IN 2016

As in previous years we identified and assessed our risks within the categories of Principal Risk overleaf to ensure appropriate mitigating activities. During 2016 the risks that were prioritised for leadership attention, and those that had most significant impact in our assessment of the future viability of the organisation, particularly related to:

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

We align our assessment of the extent of risk we wish to take with our priorities and express our risk appetite in relation to these priorities. For example, in relation to ensuring we have a safe and compliant operating environment our appetite is very low, whereas we are prepared to take risks in relation to delivering our growth objectives.

The Principal Risks, and their related components, are allocated oversight through the Board and its Committees as indicated overleaf. The table also provides an indication of the risk mitigation strategy for each risk category, reflecting our appetite for risk, and our view on changes in the risk climate compared with 2015.

Our Principal Risks and Uncertainties continued

The Board retains overall non-executive responsibility for risk across the Group. With the exception of certain risks that the Board reserves to itself, oversight of specific Principal Risks contained within the Group Risk Universe are delegated by the Board to one or more of its Committees. The table below summarises each Principal Risk with reference to oversight by the Board or its Committee, its risk climate and the associated priority.

Description	Potential impacts	Mitigation
1 Strategy delivery Failure to deliver Centrica strategy. **Governance oversight** Board **Risk climate** **Priority** Cash flow growth and strategic momentum	Following the conclusion of the strategic review, the delivery of our future strategy will involve growth in a number of business areas, implementing substantial cost efficiencies and making certain disposals. This is fundamental to our future success and incorporates both controllable and uncontrollable risk elements which require careful monitoring.	• The Board approves the Group annual plan setting the strategic direction and confirming strategic choices that are embedded in targets across the business. • Quarterly performance reviews are held with all parts of the business to monitor progress against these targets. • We have a clear financial framework to ensure capital is allocated in line with strategy and prioritised to deliver optimal business benefits. • We continue to strengthen our leadership team in order to deliver in our growth areas, including the appointment during the year of a Chief Information Officer to support our digital strategy. • We apprise ourselves constantly of developments that are central to achieving our strategy.
2 External market Changes and events in the external market or environment that could impact delivery of Centrica's strategy. **Governance oversight** Board **Risk climate** **Priority** Cash flow growth and strategic momentum	Customer behaviour and demand can change due to improved energy efficiency, climate change, government initiatives, long-term weather patterns and the general economic outlook. In addition we face competition in our upstream businesses in uncertain commodity markets and we must respond appropriately.	• Events within the external market environment sit largely outside of our direct control, but set the tone for our future business. • Regular analysis is undertaken on commodity price fundamentals and their potential impact on business plans and expectations. • We continue to pursue a range of investment options across the energy chain and in different markets and geographies in response to external market opportunities. • We are increasing our investment in connected homes through smart meters, personalised customer energy usage reports, smart and time-of-use tariffs, applications for remote heating control and US appliance rental programmes in order to respond to market disruption and position us at the forefront of new technology.
3 Political and regulatory intervention Changes, intervention or a failure to influence change to the political or regulatory landscape. **Governance oversight** Board **Risk climate** **Priority** Cash flow growth and strategic momentum	We are subject to oversight from various political and regulatory bodies in the UK, Republic of Ireland, US, Canada and elsewhere. These bodies set and oversee the terms of our licences and the conduct of our operations. In particular at present, as a consequence of the UK's decision to exit the European Union and wider political changes in the markets we operate in, risks relating to changing policies in relation to energy markets and carbon emissions are recognised.	• The Executive Committee members actively engage in discussions with all political parties, influencers and regulatory authorities. • Following the decision to exit the European Union in June we have been active in contributing our views on the development of the markets in which we operate. • We are committed to an open, transparent and competitive UK energy market that provides choice for consumers. • We accept that we may be the subject of focused regulatory scrutiny, with informal investigations into one or more areas that could result in stakeholder concerns and take measures to react as quickly as possible. • We work with regulators to seek the right approach to intervention.

Risk climate

- Unchanged
- Increased
- Reduced in some parts of the business, but unchanged in others
- Overall unchanged, but differing drivers

Description	Potential impacts	Mitigation
4 Brand, trust and reputation Competitive positioning and protection of the Centrica and subsidiary brands. **Governance oversight** Board **Risk climate** Unchanged **Priority** Customer satisfaction and operational excellence	Our primary focus is to serve our customers and satisfy their changing needs in all of the markets we operate in. We also actively manage our brands and reputation, in order to protect and develop our competitive position amongst a wide range of stakeholders.	• During the year a review of our brand positioning has been undertaken to ensure that this is aligned with our priorities. • The primary mechanism by which we review changes in our brand position is through NPS and other metrics as described on page 19. • We are focused on providing affordable energy and excellent service to deliver a fair, simplified and transparent offering to all of our consumers. • We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry.
5 Business planning, forecasting and performance Business planning, forecasting, risk management and achievement of anticipated benefits. **Governance oversight** Board **Risk climate** Unchanged **Priority** Cash flow growth and strategic momentum	We prioritise how we use our resources based on our business plans and forecasts. Failure to accurately plan and forecast taking into account the changing business environment could result in suboptimal decisions and failure to realise anticipated benefits.	• 2016 was the first full year of planning using a refreshed approach designed to underpin the delivery of the priorities. • Group functions have adopted standardised planning processes in support of the business priorities, driving improved discussion and integration. • Quarterly performance review meetings involving the Executive Committee enable the discussion of plans and forecasts with revisions identified as necessary. • Constructive challenge is provided across each level of the business to ensure that the key assumptions remain robust and appropriate.
6 Customer service Failure to provide good quality customer service through the customer lifecycle. **Governance oversight** Board **Risk climate** Reduced in some parts of the business, but unchanged in others **Priority** Customer satisfaction and operational excellence	The delivery of high quality customer service is central to our business strategy. With the entry of new competitors to the market, customers are increasingly likely to switch supplier if they face an unacceptable customer experience. Remaining at the forefront of digital developments and innovating to provide choice and control for our customers is critical.	• Great customer outcomes are at the heart of our strategy and their requirements shape our processes and interactions. • Our risk appetite reflects the need to be innovative and to invest appropriately to deliver new products and service to our customers. • We are wholly focused on providing affordable energy and excellent service, working to deliver a fair, simplified and transparent offering to consumers and protecting the most vulnerable, fuel-poor households through initiatives to improve energy efficiency or with financial advice and aid. • We continue to invest in connected home solutions and the development of digital platforms. • We have a sustained programme of simplification including the use of mobile apps, online service and breakdown bookings, and electronic billing. • Where we experience issues we invest to put them right, including making substantial improvements in our UK Business environment during 2016.

Our Principal Risks and Uncertainties
continued

	Description	Potential impacts	Mitigation
7	**People** Attraction, retention, and succession of the right people with the right skills in the right role at the right time. **Governance oversight** Board and Safety, Health, Environment, Security and Ethics Committee **Risk climate** **Priority** People and building capability	The attraction, retention, development and motivation of our people and leaders are critical factors in the successful execution of our strategy. In addition, we require the right behaviours from our leaders and employees to deliver our business strategy in accordance with our values and Business Principles.	• We have an established People Committee that has overseen the people related challenges inherent in our transformation programme. • We continue to evolve a clearly defined people strategy based on culture and engagement, equality and wellbeing, talent development, training and reward and recognition. • Our Business Principles are currently under review to ensure they drive the right behaviours across our organisation, with a view to launching our new Code of Conduct in 2017. • We regularly review organisational capability in critical business areas, reward strategies for key skills, talent management, and learning and development programmes through external benchmarking. • We engage with trade unions on restructuring and issues that could impact terms and conditions with clear and open processes to promote an environment of trust and honesty. • Feedback from our annual employee engagement survey is acted upon by leadership teams.
8	**Change management** Execution of change programmes and business restructuring. **Governance oversight** Board **Risk climate** **Priority** Cost efficiency and simplification	The successful delivery of business change is fundamental to our future success, and includes organisational, cultural and technical transformation. At the same time, we must continue to focus on maintaining our systems of internal control throughout.	• Fortnightly transformation Steering Group meetings are attended by the Executive Committee. • Change activity is managed through a structured network of programme offices providing oversight and governance at the appropriate level. • We have established a dedicated change capability at Group and business unit level to ensure benefits realisation, prioritisation of efforts and share best practice. • Our people capability has continued to be developed through 2016 to ensure we have the right skills to deliver our future plans. • We have a clear controls transition framework underpinning our system of internal control.
9	**Asset development, availability and performance** Investment, development and integrity of operated and non-operated assets. **Governance oversight** Board **Risk climate** **Priority** Customer satisfaction and operational excellence	Failure to invest in the maintenance and development of our assets could result in underperformance, assets being out of service or significant safety issues, particularly given the aging nature of a number of our assets. Operational integrity is critical to be able to deliver performance in line with the strategic objectives.	• Capital allocation and investment decisions governed through the Investment Committee with the decision right remaining with the Group Chief Executive. • Group-wide minimum standards applied to all assets, whether operated or non-operated, in order to have confidence in their integrity. • Issues related to the integrity of our assets are responded to quickly, resulting in a number of unplanned shut downs during 2016 to ensure that appropriate investigations could be undertaken and remediation performed. • The leadership teams in our asset-based businesses have been refreshed to ensure that there is appropriate experience to provide oversight of this critical area.

Description		Potential impacts	Mitigation
10	**Sourcing and supplier management** Dependency on, and management of, third parties to deliver the products and services for which they are contracted to the agreed time, cost and quality. **Governance oversight** Board and Safety, Health, Environment, Security and Ethics Committee **Risk climate** **Priority** Customer satisfaction and operational excellence	Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply with not only contractual terms, but also legal, regulatory and ethical business requirements.	• All suppliers are required to sign up to our 'Ethical Procurement' policies and procedures. • Financial health, risk and anti-bribery and corruption due diligence and monitoring is implemented in supplier selection and contract renewal processes. • Joint venture audits are conducted in relation to third party operation of critical assets. • We review the ethical conduct of our suppliers and are currently implementing a programme of supplier visits to provide additional assurance over practices employed. • We appointed a new Chief Procurement Officer in 2016 and are implementing a programme of activities to ensure consistent Group-wide practices are implemented in line with our policies.
11	**Health, safety, environment and security (HSES)** HSES hazards and regulations associated with Centrica's operations. **Governance oversight** Board and Safety, Health, Environment, Security and Ethics Committee **Risk climate** **Priority** Safety, compliance and conduct	Our operations have the potential to result in personal or environmental harm, or operational loss. Significant HSES events could also have regulatory, legal, financial and reputational impacts that would adversely affect some or all of our brands and businesses.	• HSES remains our highest priority with a continued focus across all our assets and operations. • We undertake regular reviews and have thorough assurance processes in place in relation to these risks, with reporting to the HSES Committee on a monthly basis and full discussion of all issues arising. • Third line of defence responsibility for HSES has been transferred into Internal Audit to ensure appropriate objectivity and reinforce our assurance provision. • We have strengthened our controls through the development of the HSES management system, focusing on areas including process safety, driving and working at heights. • We continue to invest in training to ensure we maintain safe operating practices, including HSES leadership programmes. • Security intelligence and operating procedures, as well as crisis management and business continuity plans are regularly evaluated and tested.

Our Principal Risks and Uncertainties
continued

Description	Potential impacts	Mitigation
12 Information systems and security Effectiveness, availability, integrity and security of IT systems and data essential for Centrica's operations. **Governance oversight** Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee **Risk climate** **Priority** Safety, compliance and conduct	Our substantial customer base and strategic requirement to be at the forefront of technology development, means that it is critical our technology is robust, our systems are secure and our data protected. Sensitive data faces the threat of misappropriation from hackers, viruses and other sources, including disaffected employees.	• Our information security strategy seeks to integrate information systems, personnel and physical aspects in order to prevent, detect and investigate threats and incidents. • We engage with key technology partners and suppliers, to ensure potentially vulnerable systems are identified. • We regularly evaluate the adequacy of our infrastructure and IT security controls, undertake employee awareness and training, and test our contingency and recovery processes. • We test our cyber security crisis management and business continuity plans recognising the evolving nature and pace of the threat landscape. • The appointment of a new Group Chief Information Officer during 2016 has provided additional focus on ensuring that all information systems and security risks are managed appropriately.
13 Legal, regulatory and ethical standards compliance Compliance with legal regulatory and ethical standards requirements. **Governance oversight** Board and Safety, Health, Environment, Security and Ethics Committee **Risk climate** **Priority** Safety, compliance and conduct	Our operations are the subject of intense regulatory focus and we seek to deliver the highest standards in compliance. This is part of our operating commitment to conduct our business in an ethical and compliant manner. We recognise any real or perceived failure to follow our Business Principles or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could also result in fines, penalties or other intervention.	• Following the completion of the CMA investigation into our UK ES&S business we have established a programme to implement its recommendations in full. • We have similarly responded to changing regulatory requirements in a number of our NA ES&S markets during 2016. • We have moved our regulatory compliance monitoring activities to a single function to drive Group-wide consistency and quality. • We have a programme of improvement activities in place to align our practices in areas including our Business Principles, financial crime and Speak Up with our operating model. • Our Business Principles and Values have been subject to review in 2016 with the involvement of many of our employees.

Description	Potential impacts	Mitigation
14 Financial market Exposure to market movements, including commodity prices and volumes, inflation, interest rates and currency fluctuations. **Governance oversight** Board and Audit Committee **Risk climate** **Priority** Cash flow growth and strategic momentum	Our financial performance and price competitiveness is dependent upon our ability to manage exposure to wholesale commodity prices for gas, oil, coal, carbon and power, interest rates for our long term borrowing, fluctuations in various foreign currencies, and environmental factors.	• The Audit Committee regularly assesses the effectiveness of control mechanisms within EM&T. • Following a review undertaken during the year, weekly meetings have been introduced within EM&T involving our specialist financial risk team and operational management. • The Group Financial Risk Management Committee meets monthly to review Group financial exposures and assess compliance with risk limits. • We have an active hedging programme to mitigate exposure to commodity and financial market volatility, which has enabled British Gas to freeze prices on the standard tariff until August 2017. • As we move into new trading arrangements, including expanding our LNG business and as a result of the acquisition of Neas Energy, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • We are investing in our systems to further automate our control environment.
15 Balance sheet strength and credit position Group balance sheet management and credit position. **Governance oversight** Board and Audit Committee **Risk climate** **Priority** Cash flow growth and strategic momentum	Certain events and activities have a direct impact on our credit ratings and liquidity which could increase the cost of, and access to, financing. In a changing external environmental we need to be able to respond to macro-economic or political influences. In particular, the lower interest rate adversely impacts our pension liabilities.	• We assess available resources on a monthly basis and this analysis underpins our going concern assumption and viability analysis as described on page 64. • Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise. • Our private placement has strengthened our balance sheet. • Counterparty exposures are restricted by setting credit limits for each counterparty, where possible with reference to published credit ratings. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy. • We continue to seek to repair the pension deficit and have responded with a number of actions implemented during 2016. • We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment.

Our Principal Risks and Uncertainties
continued

Description	Potential impacts	Mitigation
16 Financial processing and reporting Accuracy and completeness of internal and external financial information. **Governance oversight** Board and Audit Committee **Risk climate** → **Priority** Safety, compliance and conduct	We must be able to maintain robust financial systems to produce accurate financial statements underpinned by appropriate accounting judgements and the right information to support optimal business decisions. Our obligation includes maintaining processes to avoid misstatement through fraud or error so that the confidence of our customers, investors and regulators is not undermined and they can rely on available information.	• The Audit Committee reviews carefully our compliance with our internal policies and external requirements. • As described above, we maintain a robust control framework with a focus on our financial controls and management self-assessment compliance. • Our dedicated Group Controls function monitors our critical financial risks and mitigating controls and reports to the Financial Risk, Assurance and Controls Committee quarterly. • We maintain an effective working relationship with our external auditors, listening to their advice and recommendations, and they rely on our internal assurance and monitoring activities where appropriate.

VIABILITY STATEMENT

In accordance with provisions C.2.1 and C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed the prospects for the Group over a longer time period than that required in adopting the going concern basis of accounting.

In making this assessment the Directors have taken into account: the liquidity analysis performed in relation to the Group's net debt and available credit facilities; the current business performance, Group annual plan for 2017 and strategic plan for the years beyond this; consideration of potential risks and uncertainties in the delivery of the strategic plan through a number of potential scenarios and events; and available mitigating actions.

The Board has reviewed the timeframe over which it makes this assessment and considers three years to be the appropriate timeframe for consideration. The factors taken into account in determining the time period include: the alignment of this assessment with the period over which we perform liquidity analysis for the purpose of monitoring credit metrics; the short term nature of some of our more significant risks, such as the potential for disruption in our customer-facing markets and volatility related to the current political and economic environment; and the increasing uncertainty inherent in estimations beyond this time period. Three years balances the shorter term planning horizons in our customer-facing businesses, with the longer term requirements of our more asset based businesses.

The Directors carry out a robust risk assessment of the Principal Risks outlined on pages 58 to 64. In making this assessment consideration of the potential severe, but plausible, impact has been made where the realisation of those risks is considered more than remote, taking into account the effectiveness of our systems of risk management and internal control. The potential impact is based on known consequences, historical evidence and similar events observed in the market. The consequences have been combined into a number of scenarios and events that have been compared with the available headroom based on our liquidity analysis. We have considered available mitigating actions such as the potential disposal of assets, additional restrictions and limits on capital investment and further cost reduction opportunities in making this assessment.

Whilst the Group has a strong position in its chosen markets, with strong brands, a highly skilled customer-facing workforce and reliable operations, there are a number of risks that could have a significant impact on the financial performance of the Group. The risks that we considered, through a number of scenarios, to be of most significance in making the assessment of viability included:

- the potential for regulatory or political intervention resulting in a significant impact on our customer margins and retention;
- our inability to respond to disruption in the market and grow our businesses as indicated in our strategic plan;
- risks associated with keeping our people and our customers safe, incorporating potential adverse consequences of breaches in regulatory compliance obligations;
- challenges relating to the security of our systems and keeping our data safe, including cyber-security;
- the impact of a loss of containment in our upstream assets; and
- a sustained significant adverse movement in commodity prices.

In making this assessment we have taken the worst case assumptions, including all significant adverse events on the above scenarios, and determined their potential impact on the available sources of liquidity and net debt throughout the period.

Based on the conclusions of this assessment, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

Summary Governance and Financial Statements

Board of Directors

Full biographies can be found at centrica.com

RICK HAYTHORNTHWAITE

C N

IAIN CONN

D

JEFF BELL

D

MARGHERITA DELLA VALLE

A N R S

JOAN GILLMAN

N S

MARK HANAFIN

STEPHEN HESTER

A N

MARK HODGES

LESLEY KNOX

A N R

CARLOS PASCUAL

N R S

STEVE PUSEY

A N S

SCOTT WHEWAY

N R S

- C Chairman of the Board
- A Audit Committee
- D Disclosure Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety, Health, Environment, Security & Ethics Committee
- ● Denotes Committee Chairman

RICK HAYTHORNTHWAITE
Chairman

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

Skills and experience

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

External appointments

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

JEFF BELL
Group Chief Financial Officer

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

Skills and experience

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

IAIN CONN
Group Chief Executive

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

Skills and experience

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

External appointments

Non-executive director of BT Group plc.

MARGHERITA DELLA VALLE
Non-Executive Director

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

Skills and experience

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

External appointments

Deputy Group CFO of Vodafone Group plc, a member of HM Treasury's Financial Management Review Board of HM Government and a trustee of the Vodafone Foundation.

JOAN GILLMAN

Non-Executive Director

Joan joined the Board on 11 October 2016.

Skills and experience

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

External appointments

Director of Airgain, Inc.

STEPHEN HESTER

Senior Independent Director

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

Skills and experience

Stephen has wide-ranging experience, particularly in customer-facing businesses, together with recognised expertise in transforming business performance. He has a deep knowledge of operating within highly regulated businesses with over 30 years' experience in financial services and FTSE 100 companies.

External appointments

Group chief executive of RSA Insurance Group plc.

LESLEY KNOX

Non-Executive Director

Lesley joined the Board on 1 January 2012 and is Chairman of the Remuneration Committee.

Skills and experience

Lesley brings a wealth of strategic and financial experience across a range of businesses to the Board and she is an experienced remuneration committee chair. She was previously with British Linen Bank and was a founder director of British Linen Advisers. Lesley was senior non-executive director of Hays plc and also spent 15 years with Kleinwort Benson.

External appointments

Non-executive director of Thomas Cook Group plc and Legal & General Group Plc, trustee of the Grosvenor Estate and chairman of Grosvenor Group Limited. Chairman of Design Dundee Limited and a trustee of National Galleries Scotland.

STEVE PUSEY

Non-Executive Director

Steve joined the Board on 1 April 2015 and is Chairman of the SHESEC.

Skills and experience

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

External appointments

Non-executive director of FireEye, Inc.

MARK HANAFIN

Chief Executive Centrica Business

Mark joined the Board on 14 July 2008.

Skills and experience

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

External appointments

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

MARK HODGES

Chief Executive Centrica Consumer

Mark joined the Board on 1 June 2015.

Skills and experience

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

External appointments

Director of Energy UK (representing Centrica).

CARLOS PASCUAL

Non-Executive Director

Carlos joined the Board on 1 January 2015.

Skills and experience

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

External appointments

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

SCOTT WHEWAY

Non-Executive Director

Scott joined the Board on 1 May 2016.

Skills and experience

Scott has a wealth of experience as a senior customer-facing business leader with a mix of deep retail and consumer expertise. He has considerable knowledge gained in both retail and insurance industries, together with a strong understanding of operating within highly regulated businesses. Scott worked in retail for 27 years both in the UK and internationally.

External appointments

Chairman of Aviva Insurance Limited and senior independent director of Santander UK PLC.

Senior Executives

Full biographies can be found at centrica.com


CHARLES CAMERON


CHRIS COX


GRANT DAWSON
D


JILL SHEDDEN, MBE


MIKE YOUNG

CHARLES CAMERON

Director of Technology & Engineering

Charles was appointed Director of Technology & Engineering on 1 January 2016.

Skills and experience

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

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

CHRIS COX

Managing Director, Exploration & Production

Chris was appointed Managing Director, Exploration & Production on 1 February 2016.

Skills and experience

Chris has extensive experience in global oil and gas upstream activities. Since 2006 and prior to his appointment with Centrica, he held a number of senior roles at BG Group plc and was latterly the executive vice president, BG Advance and a member of the group executive team. Prior to his time at BG Group plc, Chris was with Amerada Hess and Chevron Corporation.

GRANT DAWSON

Group General Counsel & Company Secretary

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

Skills and experience

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

D Disclosure Committee

JILL SHEDDEN, MBE

Group HR Director

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

Skills and experience

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

MIKE YOUNG

Group Chief Information Officer

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

Skills and experience

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

Independent Auditors' Statement
to the members of Centrica plc

We have examined the supplementary financial information included within the Strategic Report with supplementary material for the year ended 31 December 2016, which comprises the Summary Group Balance Sheet as at 31 December 2016 and the Summary Group Income Statement, Summary Group Statement of Changes in Equity and Summary Group Cash Flow Statement for the year then ended (the Summary Financial Statements).

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITORS

The Directors are responsible for preparing the Strategic Report with supplementary material, in accordance with the Companies Act 2006, which includes information extracted from the full annual Financial Statements and the auditable part of the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2016.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements, included within the Strategic Report with supplementary material, with those full annual Financial Statements and the auditable part of the Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

BASIS OF OPINION

Our examination involved agreeing the balances disclosed in the Summary Financial Statements to full annual Financial Statements. Our audit report on the Company's full annual Financial Statements and the auditable part of the Directors' Remuneration Report describes the basis of our opinion on those Financial Statements and the auditable part of that report.

OPINION

In our opinion the supplementary financial information is consistent with the full annual Financial Statements and the auditable part of the Directors' Remuneration Report of Centrica plc for the year ended 31 December 2016.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 February 2017

Summary Group Income Statement

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

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

	2016 £000	2015 £000
Directors' remuneration(i)	10,600	7,046

(i) 2015 Directors' remuneration has been restated due to recalculation of the value of recruitment award shares based on the share price on the date of vesting. The previous disclosure in 2015 used an estimated share price.

Summary Group Balance Sheet

31 December	2016 £m	2015 (restated)(i) £m
Non-current assets	**12,601**	11,614
Current assets	**9,055**	7,531
Assets of disposal groups classified as held for sale	**238**	13
Current liabilities	**(7,835)**	(8,052)
Non-current liabilities	**(11,173)**	(9,718)
Liabilities of disposal groups classified as held for sale	**(42)**	(46)
Net assets	**2,844**	1,342
Total shareholders' equity and non-controlling interests	**2,844**	1,342

(i) Current assets and current liabilities have been restated for 2015 following a change to the treatment of cash pooling arrangements in accordance with IAS 32: 'Financial instruments: presentation'.

Summary Group Statement of Changes in Equity

	2016 £m	2015 £m
1 January	**1,342**	3,071
Profit/(loss) for the year	**1,672**	(747)
Other comprehensive loss	**(385)**	(480)
	2,629	1,844
Employee share schemes	**33**	60
Issue of share capital	**694**	–
Dividends (net of scrip dividends)	**(526)**	(388)
Taxation on share based payments	**–**	(2)
Non-controlling interests	**14**	(172)
31 December	**2,844**	1,342

Summary Group Cash Flow Statement

Year ended 31 December	2016 £m	2015 £m
Cash generated from operations	**2,875**	2,627
Taxation and other operating cash flows	**(479)**	(430)
Net cash flow from operating activities	**2,396**	2,197
Net cash flow from investing activities	**(803)**	(611)
Net cash flow from financing activities	**(546)**	(1,331)
Net increase in cash and cash equivalents	**1,047**	255
Cash and cash equivalents including overdrafts at 1 January	**860**	621
Effect of foreign exchange rate changes	**53**	(16)
Cash and cash equivalents including overdrafts at 31 December	**1,960**	860

The Summary Financial Statements on pages 70 and 71 were approved and authorised for issue by the Board of Directors on 23 February 2017 and were signed on its behalf by:

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Summary Directors' and Governance Report

CORPORATE GOVERNANCE

The Board believes that effective corporate governance provides an essential foundation for the long-term success of the Company. The Board confirms that, up to the date of this report, it fully complied with the Code.

Directors

We have sought to ensure we have an appropriate mix of diversity and skills on our Board to ensure constructive debate and thoughtful decision-making. In addition, we believe it is helpful to maintain a blend within the Non-Executive group where some are in full-time executive employment and others are pursuing a non-executive portfolio career path.

At present, there are a total of 12 Directors, of whom four are Executive and eight, including the Chairman, are Non-Executive.

All of our Non-Executive Directors are considered to be independent and free from any business interest which could materially interfere with the exercise of their judgement. In addition, the Board is satisfied that each Non-Executive Director is able to dedicate the necessary amount of time to the Company's affairs. Our Non-Executive Directors are members of various committees of the Board, which are the Audit, the Nominations, the Remuneration and the Safety, Health, Environment, Security & Ethics Committees.

Appointments

During the year under review, there were a number of changes to the Board.

Joan Gillman, Stephen Hester and Scott Wheway were appointed as Directors of the Company with effect from 11 October 2016, 1 June 2016 and 1 May 2016 respectively.

As announced in July 2016, Stephen Hester succeeded Ian Meakins to become the Company's Senior Independent Director with effect from 1 October 2016.

Mike Linn and Ian Meakins resigned as Directors of the Company with effect from 18 April and 1 October 2016, respectively.

Board evaluation

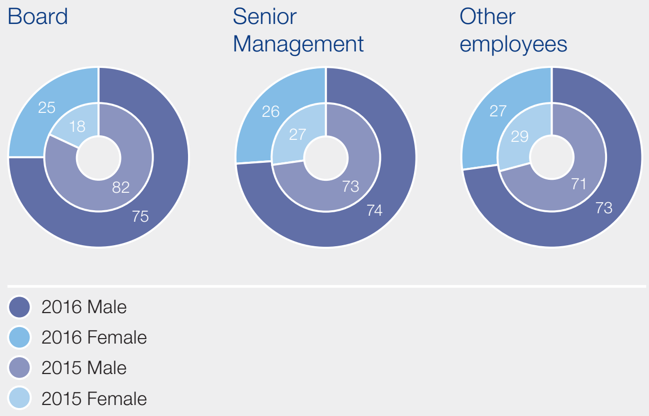
As reported last year, we considered conducting the third party evaluation during 2016, a year earlier than required by the Code. On reflection however, with three new Directors appointed in 2016 and the newly established Committee structure still bedding in, we felt it would be more valuable to have the third party evaluation in the second half of 2017.

The internal evaluation was conducted in December 2016, via online questionnaires and interviews with the Chairman. The Senior Independent Director, Stephen Hester, conducted the evaluation of the Chairman's performance through a series of individual discussions with Directors and senior executives.

The results of the evaluation exercises were reviewed by the Board and Committees in February 2017. Overall, the Board was considered to be performing well, with high scores recorded across the range of performance measures. In terms of enhancements, Directors identified some common areas where more information and discussion would be beneficial; in particular, in relation to the Group's new growth markets and to competitor benchmarking. In both areas, Directors felt the need for more attention reflected the rapid developments in those markets and in the competitive landscape rather than a significant gap in the Board's agenda. Opportunities to review these topics in depth have been built into the 2017 Board programme.

Board diversity

Breakdown by gender %



Employee and senior management diversity

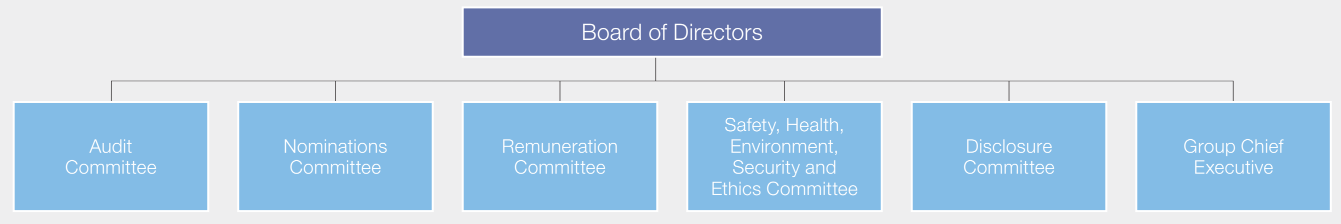
Our employment policies and practices reflect a culture where decisions are based on individual ability and potential in relation to the business' needs. We are committed to promoting equal opportunities and diversity as part of creating an inclusive working environment that attracts and retains the best people and that enables everyone in Centrica to fulfil their potential. Individuals are treated in a non-discriminatory manner at all stages of their employment, including recruitment and selection, reward, training and development and promotion and career development. By delivering on our commitment to diversity and inclusion we are able to:

- attract a diverse range of talent which we believe is the 'fuel' for the company of the future;
- create an inclusive environment so that everyone can bring their 'whole self' to work, to be themselves, have their voice heard and contribute to innovation and ideas; and
- ensure people receive career opportunities based on merit so that we have the right people in the right jobs.

At senior management level, 26% are female, and 27% of employees excluding the Board and senior management are female. Centrica has a range of initiatives in place including coaching and mentoring of diverse talent and our participation in the 30% Club's cross-company, cross-sector mentoring scheme for mid-career women who will benefit from mentoring at their current stage of career.

Two of our global businesses are taking part in a pilot focused on increasing diversity and gender parity. The leadership teams have set themselves internal goals to achieve these measures by challenging internal and external recruiters to present line managers with a more diverse candidate list at all stages of the recruitment process. In addition they will also be taking part in a reverse mentoring programme which will see the leadership team members being mentored by more junior and diverse talent from across the business.

Board governance structure



Relations with shareholders

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

In 2016, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2015 preliminary and 2016 interim results;
- meetings between the Group Chief Executive and Group Chief Financial Officer and the Company's major shareholders during the year;
- the Chairman of the Remuneration Committee meeting with a number of the Company's major shareholders during the year to discuss the Company's remuneration arrangements;
- the Chairman and Senior Independent Director meeting with major institutional shareholders in order to gain a first-hand understanding of their concerns and key issues and provide regular updates of these to the Board; and
- a meeting with our largest investors and leading proxy advisers to provide insight into the key focus and considerations of the Board and its Committees and a better understanding of the governance measures operating across the business.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and Accounts and the running of the Company generally. The Company intends to send the Notice of AGM and any related papers to shareholders at least 20 working days before the meeting. All Directors, including Committee Chairmen, are in attendance at the AGM to take questions.

At the AGM, the Chairman and the Group Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on our website.

Stephen Hester, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.

Our website contains up-to-date information for shareholders and other interested parties including annual reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.

Appointment of the external auditors

PwC have been the external auditor of the Group since the demerger of Centrica in 1997. In 2016, the Committee led a formal audit tender process. The Board and PwC mutually agreed that PwC, having regard to the length of their tenure, would not participate in the formal tender process. The conclusion of the tender process was a firm recommendation to appoint Deloitte LLP as the Company's auditor for the financial year commencing 1 January 2017. The Board has accepted and endorsed this recommendation, which is subject to shareholder approval at the Annual General Meeting scheduled for 8 May 2017.

EXTERNAL AUDITOR TRANSITION

Following a rigorous selection process Deloitte LLP was selected as the Group's external auditor for the financial year commencing from 1 January 2017. Shareholders will be asked to confirm their appointment at the 2017 AGM.

The Committee, together with management, spent significant time drawing up the assessment criteria to select the successful audit firm. The audit tender process involved three firms who each submitted their proposals for the audit. Each of the firms' engagement teams met with Centrica management teams across the Group and feedback from these meetings was provided to the Committee to inform the decision-making process. Additionally, the firms each presented to the Committee, which allowed the Committee to assess the prospective auditors' capabilities and their proposed audit approach, in terms of the strength of the lead partners and their leadership team, expertise, industry experience and audit quality, as well as independence. The Board approved the Committee's recommendation to appoint Deloitte LLP due to their extensive experience, particularly in a listed environment, their audit quality and audit service quality ratings, and their knowledge and experience of energy and utilities industries and large-scale transformation programmes.

Summary Remuneration Report

Set out below is a summary of the Remuneration Policy that was approved by shareholders on 27 April 2015 and a summary of the Remuneration Committee Chairman's annual statement. The full statement is on page 83 of the Annual Report and Accounts. The full Remuneration Policy can be found at centrica.com.

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee believes that the remuneration arrangements are completely aligned with the Executives' underlying commitment to act in the best interests of sustainable shareholder value creation, whilst ensuring behaviours remain consistent with the governance and values of the business.

Key objectives of reward framework

The Policy aims to deliver a remuneration package:

- to attract and retain high calibre Executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each Executive;
- that places a strong emphasis on performance, both the short term and long term;
- strongly aligned to the achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Reward framework

The core design of the total remuneration framework for Executives ensures that a substantial portion of the maximum opportunity is dependent upon performance. Total remuneration comprises fixed pay and variable performance related pay, which is further divided into short-term incentive (with a one-year performance period) and long-term incentive (with a three-year performance period).

Our KPIs, set out in detail on pages 18 and 19, influence the design and underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the KPIs and incentives table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

In addition, Executives are subject to a minimum shareholding guideline. Under the short and long-term incentive plans there are mandatory holding periods for shares of three to five years from grant or award date, to provide further alignment with the returns to our shareholders.

PERFORMANCE FOR THE YEAR

The Board believes that the Executive Team has successfully repositioned the strategy, organisation and priorities of the Group. The Board established targets for the year, the achievement of which would enable delivery of the strategy over the medium term, in the knowledge that these would be very stretching for the Group as a whole and successful achievement would require exceptional leadership.

All targets have been achieved or exceeded and the pace of change has resulted in greater progress along the transformation journey than the Board could have reasonably expected.

Following the plan for 2016 being set towards the end of 2015, average commodity prices have fallen by 15% – 30%, driven by lower demand in Asia, US shale gas resilience, natural gas oversupply and continued high production by OPEC member states. Whilst some of this price fall has been offset through planned hedging, the impact on the Group was significant. However, underlying performance, which is a key consideration in assessing Group operating cash flow growth, was very strong. The key drivers were above plan delivery in the transformation and efficiency programme across the Group somewhat offsetting gross margin pressures, most notably in UK Energy Supply & Services, Exploration & Production, Energy Marketing & Trading gross margin generation in trading and the gas asset book, and significant improvements in working capital management.

In reaching a view on financial performance, the Committee satisfied itself that working capital recovery was not the driver of out-performance and the benefit of foreign exchange as the pound sterling weakened over the year was more than offset by the commodity price impact. The Committee considered management behaviour including non-financial metrics. Safety outputs missed stretching objectives but personal and customer safety improved materially versus 2015 and process safety was stable. Employee engagement scores from a full survey taken during the most material organisational change period fell back, particularly in the areas of greatest change. The Committee also considered the communications and investor reaction to the equity placing and post-placing developments. Having considered all of these factors, overall the Committee concluded that financial performance as reported was a fair reflection of management performance in the year.

For past performance over the three-year performance period ending with 2016, the Group Economic Profit target applying in both long-term incentive plans operated under the previously approved policy (the Long Term Incentive Scheme and the Deferred and Matching Share Scheme) was not met, therefore there will be no vesting in 2017 and all of the awards made in April 2014 will be forfeit.

KPIs and incentives

KPI	Incentive link
Adjusted operating cash flow (AOCF)	AIP primary financial measure
Adjusted operating profit	LTIP EP three-year measure
Adjusted basic earnings per share (EPS)	LTIP EPS growth measure
Total shareholder return (TSR)	AIP deferred share investment and minimum shareholding requirement
Lost time injury frequency rate (LTIFR)	LTIP non-financial KPI dashboard
Process safety	LTIP non-financial KPI dashboard
Customer satisfaction	LTIP non-financial KPI dashboard
Employee engagement	LTIP non-financial KPI dashboard

Total remuneration

As there were a number of Executive Directors appointed part way through the prior year and 2016 has seen very strong in-year performance, this Summary Remuneration Report includes materially increased total remuneration figures when compared to the prior year figures. The Committee is satisfied that the remuneration determined for each Executive is appropriate in the context of the approved Policy and the significant in-year performance delivered.

LOOKING FORWARD

In preparation for presentation of a remuneration policy to shareholders at the AGM in 2018 the Committee plans to fully review executive remuneration during the forthcoming year taking into consideration the strategic direction of the Group, appropriate ongoing alignment with that strategy and the continuing development of all stakeholders' views regarding executive pay. The Committee expects to consult with major shareholders on any proposals in the latter months of the year.

DIRECTORS' REMUNERATION IN 2016

The Directors' Annual Remuneration Report is set out in full on pages 92 to 99 of the Annual Report and Accounts.

Single figure for total remuneration (audited)

£000	**2016** **Salary/ fees**	2015 Salary/ fees	**2016** **Bonus (cash)**	2015 Bonus (cash)	**2016** **Bonus (deferred)**	2015 Bonus (deferred)	**2016** **Benefits (viii)**	2015 Benefits	**2016** **LTIPs (ix)**	2015 LTIPs	**2016** **Recruit-ment award (x)**	2015 Recruit-ment award (xi)	**2016** **Pension (xii)(xiii)**	2015 Pension	**2016** **Total**	2015 Total (restated)
Executives																
Iain Conn	**925**	925	**759**	581	**759**	581	**29**	29	**–**	–	**1,402**	632	**277**	277	**4,151**	3,025
Jeff Bell(i)	**550**	229	**424**	116	**424**	116	**26**	10	**–**	–	**–**	–	**140**	58	**1,564**	529
Mark Hanafin	**625**	621	**481**	361	**481**	361	**25**	24	**–**	–	**–**	–	**267**	249	**1,879**	1,616
Mark Hodges(ii)	**625**	365	**544**	230	**544**	230	**82**	20	**–**	–	**–**	–	**156**	91	**1,951**	936
															9,545	6,106
Non-Executives																
Rick Haythornthwaite	**495**	495	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**495**	495
Margherita Della Valle	**98**	88	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**98**	88
Joan Gillman(iii)	**16**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**16**	–
Stephen Hester(iv)	**47**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**47**	–
Lesley Knox	**93**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**93**	85
Mike Linn(v)	**28**	73	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**28**	73
Ian Meakins(vi)	**70**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**70**	85
Carlos Pascual	**73**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**73**	65
Steve Pusey	**87**	49	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**87**	49
Scott Wheway(vii)	**48**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	–
															1,055	940
Total															**10,600**	7,046

(i) Jeff Bell was appointed as an Executive Director on 1 August 2015. His 2015 remuneration therefore represents 42% of a full year.
(ii) Mark Hodges was appointed as an Executive Director on 1 June 2015. His 2015 remuneration therefore represents 58% of a full year.
(iii) Joan Gillman was appointed as a Non-Executive Director on 11 October 2016.
(iv) Stephen Hester was appointed as a Non-Executive Director on 1 June 2016.
(v) Mike Linn resigned as a Non-Executive Director on 18 April 2016.
(vi) Ian Meakins resigned as a Non-Executive Director on 1 October 2016.
(vii) Scott Wheway was appointed as a Non-Executive Director on 1 May 2016.
(viii) Taxable benefits include car allowance, health and medical benefits and financial planning advice. Non-taxable benefits include matching shares received under the SIP. Benefits paid to Mark Hodges in 2016 include relocation support paid in line with Centrica's relocation policy.
(ix) The long-term incentives include the value of the LTIS and DMSS matching awards due to vest in April 2017, relating to the three-year performance period ending in 2016. The performance targets have not been met and these awards therefore will not vest. Details of the performance outcomes are set out on page 94 of the Annual Report and Accounts.
(x) The recruitment award shares vesting in April 2017 have been valued to calculate an estimated payout using the share price at 31 December 2016 which was 234.1p. The value of the estimated dividend equivalent shares has been included. The shares will be held until April 2018. The Committee's assessment of performance against the targets that were set for the final tranche of this award is set out on page 95 of the Annual Report and Accounts.
(xi) The value of the recruitment award shares vesting in April 2016 has been recalculated based on the share price on the date of vest which was 223.5p. The previous disclosure in the 2015 single figure table used an estimated share price.
(xii) Notional contributions to the CUPS DC scheme for Mark Hanafin and Jeff Bell (less an allowance for CPI inflation on this opening balance of 1.3% in 2015, no allowance applicable in 2016) have been included in this table as if CUPS DC were a cash balance scheme.
(xiii) Iain Conn and Mark Hodges are entitled to receive a salary supplement of 30% and 25% of base pay respectively.

Shareholder Information

This section provides shareholders with key information to assist in the management of their shareholding.

MANAGING YOUR SHARES

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website, centrica.com. Receiving communications and Company documents electronically saves your Company money and reduces our environmental impact.

If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Accounts and Annual Review, on the day they are published. You will also receive alerts to let you know that you can cast your AGM vote online.

You can manage your shareholding online by registering for Shareview at shareview.co.uk, a free, secure, online site where you can access your information and complete a number of functions including:

- viewing information about your shareholding or dividend payments;
- updating your records, including changing your address or bank mandate instructions; and
- appointing a proxy for the AGM.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Financial Services Limited, however, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and comes with a number of benefits:

- low cost share dealing rates (full details of which are available on centrica.com, together with dealing charges);
- quicker settlement periods for buying and selling shares; and
- no paper share certificates to lose.

Centrica.com

The Shareholder Centre on our website includes frequently asked questions and forms that are available to download to:

- change your registered address;
- manage your dividend payments; and
- elect to join the scrip.

A wealth of other information is also available on our website, including:

- regular updates about our business;
- financial results;
- comprehensive share price information;
- dividend payment dates and amounts;
- share and dividend history; and
- the Company's Articles of Association.

This Annual Report and Accounts can also be viewed online by visiting centrica.com/ar16.

General enquiries

Centrica's share register is administered and maintained by Equiniti, our Registrar, whom you can contact directly if you have any questions about your shareholding which are not answered here or on our website. You can contact Equiniti using the following details:

Address: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA United Kingdom

Telephone: 0371 384 2985*
Outside the UK: +44 (0)121 415 7061

Textphone: 0371 384 2255*
Outside the UK: +44 (0)121 415 7028

Website: help.shareview.co.uk

* Calls to an 03 number cost no more than a national rate call to an 01 or 02 number. Lines open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales.

When contacting Equiniti or registering via shareview.co.uk, you should have your shareholder reference number at hand. This can be found on your share certificate, dividend confirmation or any other correspondence you have received from Equiniti.

If you hold less than 2,500 shares you will be able to change your registered address or set up a dividend mandate instruction over the phone, however, for security reasons, if you hold more than 2,500 shares, you will need to put this in writing to Equiniti.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment at a convenient time. Details of this service can be found at shareview.co.uk.

Duplicate documents

If you receive more than one copy of shareholder documents, it is likely that you have multiple accounts on the share register, perhaps with a slightly different name or address. To combine your shareholdings, please contact Equiniti and provide them with your shareholder reference numbers. This also helps us to reduce our environmental impact and save paper.

Shareholder fraud warning

Shareholders are advised to be very wary of any suspicious or unsolicited mail or telephone calls in relation to their Centrica shares. These may offer to buy shares at a discount, sell your shares at a premium or offer a free company report. These communications imply a connection with Centrica and are often from overseas based 'brokers' who are very persuasive and extremely persistent, with professional websites to support their activities. Such communications are not endorsed by Centrica as the Company does not participate in such unsolicited communication programmes. The calls should be treated as scams and should be reported to the Financial Conduct Authority (FCA) so that they can investigate. You are able to do this either online at fca.org.uk/consumers/report-scam-unauthorised-firm or by calling them on 0300 500 8082* or +44 (0)207 066 1000* from outside the UK.

If you do receive telephone calls, emails or letters from Centrica or from companies endorsed by Centrica and you are unsure if they are legitimate, please contact our shareholder helpline for clarification on 0371 384 2985**.

More information can be found on the FCA's website fca.org.uk/consumers/scams and scamsmart.fca.org.uk.

* FCA lines open 8.00 am to 6.00 pm, Monday to Friday (UK time), excluding public holidays in England and Wales, and 9.00 am to 1.00 pm, Saturday (UK time). Calls to an 03 number cost no more than a national rate call to an 01 or 02 number.

** Shareholder helpline open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales. Calls to an 03 number cost no more than a national rate call to an 01 or 02 number.

RANGE ANALYSIS OF REGISTER
Breakdown of shareholdings overall

Range	Number of holdings	Percentage of issued share capital*
1–500	423,568	1.7%
501–1,000	88,559	1.1%
1,001–5,000	57,614	1.9%
Over 5,001	6,340	95.2%
Total*	576,081	100%

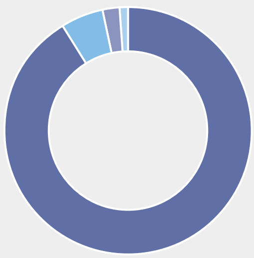
* Excludes shares held in Treasury.

RANGE ANALYSIS OF REGISTER
Breakdown of shareholdings with over 5,001 shares

Range	Number of holdings	Percentage of issued share capital*
5,001–10,000	3,875	0.5%
10,001–50,000	1,494	0.5%
50,001–100,000	157	0.2%
100,001–1,000,000	457	3.1%
1,000,001–maximum	357	90.9%
Total*	6,340	

* Excludes shares held in Treasury.

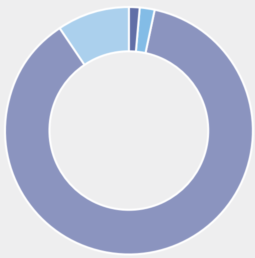
Share distribution



	Number of shares
Institutions	5,063,443,175
Individuals	295,871,106
Centrica FlexiShare	129,215,631
Treasury	50,833,460

When including Centrica FlexiShare holders, individual shareholders equate to 99% of the Company's registered shareholders with institutions making up the remaining 1%. The 99% of individual shareholders hold 7.7% of the Company's issued share capital with institutional investors holding 92.3%. These figures exclude shares held in Treasury which represent 0.9% of the Company's issued share capital.

Shareholder communication preferences as at 31 December 2016

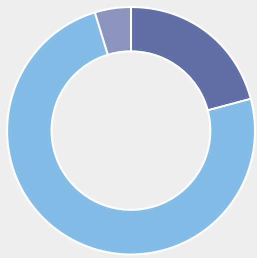


	Number of holdings
Hardcopy Annual Report	8,664
Hardcopy Annual Review	11,801
Notice of Availability	531,054
Electronic communication	56,073

The Company spends over £189,000 on postage of its Annual Report and Accounts and related documents.

Help us to reduce our costs and to reduce our environmental impact by signing up now for electronic shareholder communications. Register now at shareview.co.uk and you will be notified as soon as new shareholder documents are available online.

Shareholder dividend preferences for the 2016 interim dividend



	Number of shares
Scrip dividend reinvestment	1,148,656,041
Bank mandate	4,064,969,244
Cheque	251,963,002

If you elect to receive cash dividends you are encouraged to have your dividends paid directly to your bank or building society account. This means that you will receive the money on the day it is paid which avoids the risk of your dividend cheque being delayed or lost in the post.

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Printed by CPI Colour Limited ISO14001, FSC® certified and CarbonNeutral®.

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Disclaimer

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

This Annual Review 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.

CENTRICA PLC

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Company registered
in England and
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