Ofgem Consolidated Segmental Statement

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

Our Opinion

We have audited the statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees (as listed in footnote (i)) for the year ended 31 December 2016 in accordance with the terms of our agreement dated 3 January 2017. The CSS has been prepared by the Directors of Centrica plc and its Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and the Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 8 to 11.

In our opinion the accompanying CSS of Centrica plc and its Licensees for the year ended 31 December 2016 is prepared, in all material respects, in accordance with:

- the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and
- the basis of preparation on pages 8 to 11.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the CSS section of our report. We are independent of Centrica plc in accordance with the ethical requirements that are relevant to our audit of the CSS in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to pages 8 to 11 of the CSS, which describes the basis of preparation. The CSS is prepared in order for Centrica plc and its Licensees to meet the Licence requirement of the Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 8 to 11. This basis of preparation is not the same as segmental reporting under IFRS and/or statutory reporting. As a result, the schedule may not be suitable for another purpose.

This report, including our opinion, has been prepared solely for the Board of Directors of Centrica plc and its Licensees in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem.

We permit this report to be disclosed in the Financial Statements section of the Annual Report and Accounts of Centrica plc for the year ended 31 December 2016 and in the Financial Statements section of the website [(ii)] www.centrica.com, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Centrica plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

Responsibilities of Management and those charged with governance for the CSS

Management is responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 8 to 11 and for maintaining the underlying accounting records and such internal controls as management determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

In preparing the CSS alongside the Centrica plc Annual Report and Accounts, management is responsible for assessing the Centrica plc group's ability to continue as a going concern, disclosing, as applicable in the Centrica plc Annual Report and Accounts, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the CSS

Our objectives are to obtain reasonable assurance about whether the CSS as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basics of this CSS. The materiality level that we used in planning and performing out audit is set at £30 million for each of the segments.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CSS, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management; and

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF CENTRICA PLC AND ITS LICENSEES

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the CSS (and, by cross reference, in the Centrica plc Annual Report and Accounts, where applicable) or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Charles Bowman.

PricewaterhouseCoopers LLP
London
23 February 2017

(i) British Gas Trading Limited, Neas Energy Limited, Centrica Langage Limited, Centrica SHB Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica PB Limited and Centrica KL Limited.

(ii) The maintenance and integrity of Centrica plc's website is the responsibility of the Directors of Centrica plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

Ofgem Consolidated Segmental Statement

Introduction

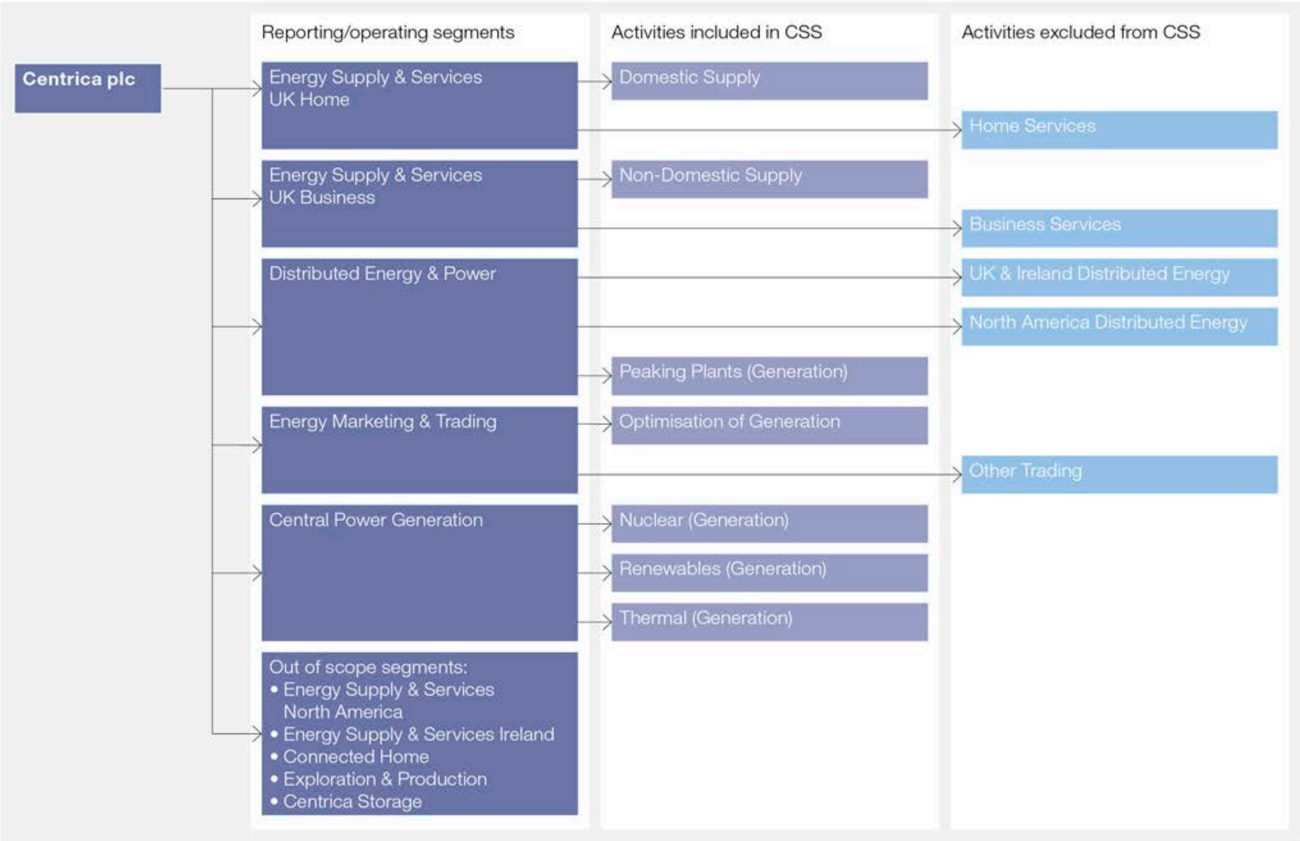
The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 3 to 13 are provided in order to comply with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information is prepared by the Directors in accordance with the Segmental Statements Guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Centrica plc Preliminary Results for the year ended 31 December 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

Centrica plc operational reporting structure

Below is a summary of the Centrica plc Group's (Group) operational reporting structure. The CSS financial data has been extracted from the Centrica plc Preliminary Results 2016 operating segments rather than with reference to specific legal entities. Certain activities included in the Group's operating segments have been excluded from the Generation and Supply segments of the CSS on the basis they are non-licensed activities (for example Business Services and trading activity unrelated to Generation or Supply) as illustrated below. The Centrica plc Preliminary Results 2016 provides operating segment results in note 5. A full reconciliation between the relevant operating segment results and those disclosed for 'Domestic Supply', 'Non-Domestic Supply' and 'Generation' in this CSS is provided at the end of the report.

Ofgem reporting structure



Ofgem Consolidated Segmental Statement

Centrica plc operational reporting structure

Centrica plc is the ultimate parent company of all 100% owned licensees. The individual supply and generation licences are held in legal entities whose licensed activities are reported as part of the Centrica plc Preliminary Results 2016 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2016 are detailed below:

Licensee	Licence	Ownership
British Gas Trading Limited	Supply	100%
Neas Energy Limited (i)	Supply	100%
Centrica Langage Limited	Generation	100%
Centrica SHB Limited	Generation	100%
Centrica Brigg Limited	Exempt	100%
Centrica Barry Limited	Generation	100%
Centrica KPS Limited	Generation	100%
Centrica RPS Limited	Exempt	100%
Centrica PB Limited	Generation	100%
Centrica KL Limited	Generation	100%
Lincs Wind Farm Limited	Generation	50% Joint venture
Glens of Foudland Wind Farm Limited (ii)	Exempt	50% Joint venture
Lynn Wind Farm Limited (ii)	Exempt	50% Joint venture
Inner Dowsing Wind Farm Limited (ii)	Exempt	50% Joint venture
EDF Energy Nuclear Generation Limited (iii)	Generation	20% Associate

(i) Neas Energy Limited was acquired on 5 October 2016. It holds a supply licence but currently does not supply any UK customers.
(ii) Centrica plc Group disposed of its 50% share of Glens of Foudland Wind Farm Limited, Lynn Wind Farm Limited and Inner Dowsing Wind Farm Limited on 7 March 2016.
(iii) The Group holds a 20% investment in Lake Acquisitions Limited which indirectly owns 100% of EDF Energy Nuclear Generation Limited.

Ofgem Consolidated Segmental Statement

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

Year ended 31 December 2016

	Unit	Electricity Generation Nuclear (i)	Thermal (i)	Renewables	Aggregate Generation Business	Electricity Supply Domestic	Non-Domestic	Gas Supply Domestic	Non-Domestic	Aggregate Supply Business
Total revenue	**£m**	**576.1**	**532.0**	**72.2**	**1,180.3**	**3,208.7**	**1,459.1**	**4,498.5**	**538.8**	**9,705.1**
Sales of electricity & gas	£m	570.1	507.3	18.2	**1,095.6**	3,127.7	1,459.1	4,420.9	538.8	**9,546.5**
Other revenue	£m	6.0	24.7	54.0	**84.7**	81.0	–	77.6	–	**158.6**
Total operating costs	**£m**	**(326.9)**	**(557.5)**	**(35.5)**	**(919.9)**	**(3,280.6)**	**(1,448.3)**	**(3,751.6)**	**(486.6)**	**(8,967.1)**
Direct fuel costs	£m	(97.1)	(326.6)	–	**(423.7)**	(1,206.3)	(611.0)	(1,733.7)	(271.0)	**(3,822.0)**
Direct costs	£m	(209.2)	(180.1)	(18.8)	**(408.1)**	(1,510.6)	(655.1)	(1,244.4)	(125.7)	**(3,535.8)**
Network costs	£m	(42.1)	(41.8)	(10.2)	**(94.1)**	(952.4)	(371.4)	(1,103.4)	(108.0)	**(2,535.2)**
Environmental and social obligation costs	£m	–	(90.8)	–	**(90.8)**	(508.0)	(262.5)	(94.2)	–	**(864.7)**
Other direct costs	£m	(167.1)	(47.5)	(8.6)	**(223.2)**	(50.2)	(21.2)	(46.8)	(17.7)	**(135.9)**
Indirect costs	£m	(20.6)	(50.8)	(16.7)	**(88.1)**	(563.7)	(182.2)	(773.5)	(89.9)	**(1,609.3)**
WACOF/E/G	**£/MWh, P/th**	**(7.5)**	**(41.3)**	**–**	**N/A**	**(54.6)**	**(48.5)**	**(48.9)**	**(50.8)**	**N/A**
EBITDA	**£m**	**249.2**	**(25.5)**	**36.7**	**260.4**	**(71.9)**	**10.8**	**746.9**	**52.2**	**738.0**
DA	£m	(137.0)	(25.1)	(26.5)	**(188.6)**	(54.0)	(8.9)	(68.0)	(4.3)	**(135.2)**
EBIT	**£m**	**112.2**	**(50.6)**	**10.2**	**71.8**	**(125.9)**	**1.9**	**678.9**	**47.9**	**602.8**
Volume	TWh, MThms	13.0	10.1	0.5	N/A	22.1	12.6	3,548.7	533.2	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	N/A	6,341.9	496.3	7,992.3	237.4	N/A

		Electricity Supply Domestic	Non-Domestic	Gas Supply Domestic	Non-Domestic	Aggregate Supply Business
Supply EBIT	**margin**	**(3.9)%**	**0.1%**	**15.1%**	**8.9%**	**6.2%**
Supply PAT	**£m**	**(105.3)**	**1.6**	**567.7**	**40.5**	**504.5**
Supply PAT	**margin**	**(3.3)%**	**0.1%**	**12.6%**	**7.5%**	**5.2%**

2015 Summarised CSS

Year ended 31 December 2015

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

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

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

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

Glossary of terms

- 'WACOF/E/G' is weighted average cost of fuel (nuclear), electricity (supply) and gas (thermal and supply) calculated by dividing direct fuel costs by volumes. For the Thermal sub-segment the cost of carbon emissions is added to direct fuel costs before dividing by the generated volume.
- 'EBITDA' is earnings before interest, tax, depreciation and amortisation, and is calculated by subtracting total operating costs from revenue.
- 'DA' is depreciation and amortisation.
- 'EBIT' is earnings before interest and tax, and is calculated by subtracting total operating costs, depreciation and amortisation from total revenue.
- 'Supply EBIT margin' is a profit margin expressed as a percentage and calculated by dividing EBIT by total revenue and multiplying by 100 for the Supply segment.
- 'Supply PAT' is profit after tax but before interest and is calculated by subtracting Group adjusted tax from EBIT for the Supply segment.
- 'Supply PAT margin' is a profit margin expressed as a percentage and calculated by dividing Supply PAT by total revenue and multiplying by 100 for the Supply segment.
- 'Volume' for Supply is supplier volumes at the meter point (ie net of losses); Generation volume is the volume of power that can actually be sold in the wholesale market (ie generation volumes after losses up to the point where power is received under the Balancing and Settlement Code but before subsequent losses).
- 'Average customer numbers/sites' are calculated by adding average monthly customer numbers/sites (as defined in the basis of preparation) and dividing by 12.

Ofgem Consolidated Segmental Statement

BUSINESS FUNCTIONS TABLE

Year ended 31 December 2016 – analysis of business functions [(i)]

The table below illustrates where the business functions reside.

	Generation	Supply	Another part of business
Operates and maintains generation assets	✓	–	–
Responsible for scheduling decisions	✓	–	–
Responsible for interactions with the Balancing Market	✓	✓	–
Responsible for determining hedging policy	✓ (output)	✓ (demand)	–
Responsible for implementing hedging policy/makes decision to buy and sell energy	✓ (output)	✓ (demand)	–
Interacts with wider market participants to buy/sell energy	✓ (bilateral)	✓ (market and bilateral)	✓ (market and bilateral) [(ii)]
Holds unhedged positions (either short or long)	✓	✓	✓ [(ii)]
Procures fuel for generation	✓	–	–
Procures allowances for generation	✓	–	–
Holds volume risk on positions sold (either internal or external)	✓	✓	–
Matches own generation with own supply	–	✓ [(iii)]	✓ [(ii) (iii)]
Forecasts total system demand	–	✓	–
Forecasts wholesale price	✓ [(iv)]	✓ [(iv)]	✓ [(iv)]
Forecasts customer demand	–	✓	–
Determines retail pricing and marketing strategies	–	✓	–
Bears shape risk after initial hedge until market allows full hedge	✓	✓	–
Bears short-term risk for variance between demand and forecast	–	✓	–

(i) The table reflects the business functions that impact our UK segments.
(ii) The Group's Supply and Generation businesses are separately managed. Both businesses independently enter into commodity purchases and sales with the market via Centrica Energy Limited (CEL), our market-facing legal entity. CEL forms part of our non-licensed element of Energy Marketing & Trading function and also conducts trading for the purpose of making profits in its own right. The Supply segment is also able to enter into market trades directly as part of its within day balancing activities (as well as external bilateral contracts).
(iii) There are a small number of bilateral off-take contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments. Other than this small number of bilateral contracts, 'Matches own generation with own supply' is undertaken in 'Another part of the business' (by CEL at market referenced prices), outside of the Generation and Supply segments.
(iv) A separate team forecasts the wholesale price for the benefit and use of the entire Group. This team does not formally reside in any particular segment but their costs are recharged across the Group.

Key:

✓ Function resides and profit/loss recorded in segment.
– Neither function nor profit/loss reside in segment.

Glossary of terms

- 'Scheduling decisions' means the decision to run individual generation units.
- 'Responsible for interactions with the Balancing Market' means interactions with the Balancing Mechanism in electricity.
- 'Interacts with wider market participants to buy/sell energy' means the business unit is responsible for interacting with wider market participants to buy/sell energy, not the entity responsible for the buy/sell decision itself, which falls under 'Responsible for implementing hedging policy/makes decisions to buy/sell energy'.
- 'Matches own generation with own supply' means where there is some internal matching of generation and supply before either generation or supply interact with the wider market.
- 'Forecasts total system demand' means forecasting total system electricity demand or total system gas demand.
- 'Forecasts customer demand' means forecasting the total demand of own supply customers.
- 'Bears shape risk after initial hedge until market allows full hedge' means the business unit which bears financial risk associated with hedges made before the market allows fully shaped hedging.
- 'Bears short-term risk for variance between demand and forecast' means the business unit which bears financial risk associated with too little or too much supply for own customer demand.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

The following notes provide a summary of the basis of preparation of the 2016 submission.

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

These statements have been prepared by the Directors of Centrica plc and its Licensees in accordance with Standard Condition 16B of the Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences and the basis of preparation. Throughout the basis of preparation the first paragraph number relates to the generation licence and the second to the supply licence conditions respectively.

The financial data provided has been taken from the relevant licensee's and affiliate's financial information for the year ended 31 December 2016, included in the Centrica plc Preliminary Results 2016 which have been prepared under IFRS as adopted by the EU (in accordance with paragraph 3/19A.3).

The CSS has been prepared on a going concern basis, as described in note 4 in the Centrica plc Preliminary Results 2016.

For the Generation segment, we have included the financial results from all activities that relate to our generation licences. For clarity the following judgements have been made:

- Where a sub-segment (for example Nuclear, Thermal or Renewables) has undertaken trades to optimise the result of their underlying generation (for example through our Energy Marketing & Trading business), the net revenue and result from these trades has been included in the CSS sub-segment as they are considered to be related to our generation licences.
- The Group has a long-term tolling contract in respect of the Spalding power station, but does not specifically hold the generation licence. This arrangement provides the Group with the right to nominate 100% of the plant capacity in return for a mix of capacity payments and operating payments. We do not own the power station and the Group does not control the physical dispatch of the asset. This contractual arrangement has been accounted for as a finance lease (under IFRS) and therefore the financial result and volume has been included in the Thermal sub-segment, within the Generation segment.
- Brigg and Roosecote power stations had their licences revoked on 2 July 2015 (at their request) because they no longer required an electricity generation licence and are now exempt. Whilst we do not specifically hold a generation licence for these power stations, the financial results from these businesses have been included in the Thermal sub-segment and hence within the Generation segment.
- The Group has a 20% equity interest in eight nuclear power stations (through its indirect investment in EDF Energy Nuclear Generation Limited). Although we do not specifically hold a generation licence for any of the nuclear stations, our gross share of the financial result from this business (including any contractual arrangements) has been included in the Nuclear sub-segment and hence within the Generation segment.
- The Group held equity interests in a number of wind farm joint ventures. Although we do not specifically hold a generation licence for any of the wind farms owned by these entities, our gross share of the financial result from these businesses (including any contractual arrangements) has been included in the Renewables sub-segment and hence within the Generation segment.
- Where power is purchased from third parties (for example from wind farms, power stations or other bilateral arrangements) and we do not have an equity interest in, or a finance leasing arrangement (from an IFRS perspective) over the assets that generate this power, the result related to these activities is excluded from the Generation segment. In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (if the purchase cost is a direct fuel cost, then the electricity generated is reported in volume).

Domestic Supply represents the revenue and associated costs in supplying gas and electricity to residential customers in the UK. Non-Domestic Supply represents the revenue and associated costs in supplying gas and electricity to business customers in the UK.

As a voluntary disclosure, to aid comparability, a summarised 2015 CSS with margins has been included within the report. The 2015 comparatives for Domestic Supply have been restated to remove the performance of the Connected Home segment which is now deemed to be a separate business unit and unrelated to the licenced supply business. 2015 total revenue has been reduced by £7.1 million, EBIT increased by £48.5 million and PAT increased by £39.6 million for Domestic Supply. In addition, 2015 comparatives have also been restated to reallocate £7.5 million of bad debt charge from Domestic Gas Supply to Domestic Electricity Supply.

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2 and 3 of the Centrica plc Preliminary Results 2016, except for joint ventures and associates which are presented gross (in accordance with paragraph 4(a)/19A.4(a)).

- Revenue from sales of electricity and gas for the Supply segment is recognised on the basis of gas and electricity supplied during the year to both domestic and non-domestic customers.
- Revenue from sales of electricity and gas includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). For the respective Supply segments this means electricity and gas sales. Revenue for domestic supply is after deducting dual fuel discounts where applicable, with the discount split evenly between electricity and gas. Government mandated social tariffs and discounts, such as the Warm Home Discount, and other social discounts, have also been deducted from Domestic Supply revenues directly, charged specifically to each fuel.
- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the year. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

- LEC revenues associated with Renewables are included within sales of electricity and gas because the certificates must be sold with the electricity.
- The financial risks and rewards of owning and using the Group's power stations reside entirely in the reported Generation segment.
- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £54.0 million (2015: £78.4 million) in Renewables principally relating to the sale of ROCs and services provided to joint ventures;
  - Nil in Non-Domestic Electricity Supply relating to connections and metering installations (2015: £3.4 million); and
  - £81.0 million (2015: £67.8 million) in Domestic Electricity Supply and £77.6 million (2015: £75.8 million) in Domestic Gas Supply primarily relating to New Housing Connections and smart meter installations.
  - £24.7 million (2015: £11.3 million) in Thermal principally relating to Supplementary Balancing Reserve (SBR), Short Term Operating Reserve (STOR) and Triad revenue.

Direct fuel costs

Direct fuel costs for both Generation and Supply include electricity, gas, nuclear fuel and imbalance costs.

- Energy supply to Domestic and Non-Domestic energy customers is procured at a market referenced price, through a combination of bilateral, OTC and exchange-based trades/contracts (see table below). Where energy is procured from within the Group it is also at a market referenced price on an OTC basis (except for a small number of bilateral off-take contracts between wind farm joint ventures and the Supply segments) [(i)]. The market referenced prices used are those prevailing at the time of procurement, which may differ from the price prevailing at the time of supply.
- Domestic and Non-Domestic fixed price products are hedged based upon anticipated demand at the start of the contract period. The majority of the gas and power for Non-Domestic energy and Domestic energy tariff products is purchased in advance (see table below).
- The exact Domestic and Non-Domestic purchasing patterns vary in response to the outlook for commodity markets and commercial factors.
- The Generation segment purchases gas and sells all of its energy at market referenced prices. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.

How we procure electricity, gas and carbon:

Long form bilateral contracts ('bilateral')	Individually negotiated contracts with non-standardised terms and conditions which may relate to size, duration or flexibility. Pricing is predominantly indexed to published market referenced prices, adjusted for transfer of risks, cost of carry and administration.
Over-the-counter ('OTC')	Broker supported market of standardised products, predominantly performed via screen-based trading. These transactions are between two parties, leaving both parties exposed to the other's default with no necessary intermediation of any exchange. An internal OTC price may be provided where market liquidity prevents external trading, with prices that are reflective of market conditions at the time of execution.
Exchange	Regulated electronic platform (notably ICE, APX, and N2EX) where standardised products are traded on exchange through the intermediary of the clearing house which becomes the counterparty to the trade. Membership of a clearing house is required which entails posting of cash or collateral as margin.

WACOF/WACOE/WACOG:

- For Generation this represents the weighted average input cost of gas, carbon and nuclear fuel, shown as £/MWh, used by the Generation business. Gas for CCGTs is procured at market referenced prices through a combination of OTC and exchange-based trades/contracts. The cost to the power stations will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply.
- For Supply this covers the wholesale energy cost, the energy element of reconciliation by difference (RBD) costs and balancing and shaping costs incurred by the Supply licensees. Again, gas and electricity is procured at market referenced prices through a combination of bilateral, OTC and exchange-based trades/contracts. The cost for the Supply business will reflect market referenced prices at the time of procurement, and so may differ from the price prevailing at the time of physical supply. Where gas is procured using (predominantly indexed) bilateral contracts, the fuel cost is then allocated between Domestic and Non-Domestic Supply using annually updated fixed percentages based on the historical split of tariff book volumes. Gas and Electricity balancing costs are allocated between Domestic and Non-Domestic Supply based on their respective volumes multiplied by an appropriate industry referenced price (for example APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

(i) Internal power off-take contracts are long-term power and associated renewable certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published market prices, adjusted for the transfer of risks specific to the asset.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

Direct costs

Direct costs for Supply and Generation are broken down into network costs, environmental and social obligation costs and other direct costs.

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £40.8 million incurred by Gas Domestic Supply in 2016, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas (2015: £42.2 million).
- Environmental and social obligation costs for Domestic Supply include ROCs, FIT and ECO. Non-Domestic Supply includes the cost of LECs, ROCs and FIT. Within the Domestic and Non-Domestic segments, the costs of LECs, FIT and ROCs are included within Electricity, and ECO is allocated between Electricity and Gas based on the relevant legislation. Environmental and social obligation costs for the Generation segment relate to EU ETS carbon emission costs and carbon tax.
- Other direct costs for Generation include employee and maintenance costs.
- Other direct costs for Supply include brokers' costs and sales commissions when the costs have given rise directly to revenue, that is, producing a sale. They also include Elexon and Xoserve market participation and wider Smart metering programme costs.

Indirect costs

Indirect costs for Supply and Generation include operating costs such as sales and marketing, bad debt costs, costs to serve, IT, HR, finance, property, staffing and billing and metering costs (including smart meter costs).

- Indirect costs for the Generation, Domestic and Non-Domestic Supply segments (including corporate and business unit recharges) are allocated based on relevant drivers which include turnover, headcount, operating profit, net book value of fixed assets and proportionate use/benefit. For Supply, indirect costs (including corporate recharges but excluding bad debt costs) are primarily allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic). Bad debt costs are allocated between Electricity and Gas on the basis of actual bad debt cost by individual contract in the billing system (Domestic), and on the basis of revenues (Non-Domestic).
- 2015 indirect costs for Nuclear (within the Generation segment) included a one-off pension credit of £18.7 million. For 2016 there was no such credit.

Other

- For Supply, depreciation and amortisation is allocated between Electricity and Gas on the basis of customer numbers (Domestic) and sites (Non-Domestic).
- For the purposes of Supply PAT, tax is allocated between Gas and Electricity within both Domestic and Non-Domestic Supply based on their relative proportions of EBIT. Note 5(c) of the Centrica plc Preliminary Results 2016 provides details of the adjusted operating profit after tax of the relevant operating segments.
- For the Domestic Supply segment, customer numbers are stated based on the number of district meter point reference numbers (MPRNs) and meter point administration numbers (MPANs) in our billing system (for gas and electricity respectively), where it shows an active point of delivery and a meter installation. As a result, our customer numbers do not include those meter points where a meter may recently have been installed but the associated industry registration process has yet to complete, as the meter information will not be present in our billing system.
- For the Non-Domestic Supply segment, sites are based on the number of distinct MPRNs and MPANs in our billing system for gas and electricity respectively.

Transfer pricing for electricity, gas and generation licensees in accordance with paragraph 4(d)/19A.4(d)

There are no specific energy supply agreements between the Generation and Supply segments (apart from a small number of bilateral off-take [i] contracts between wind farm joint ventures and Domestic and Non-Domestic Electricity Supply segments).

The Group continues to ensure transfer pricing methodologies are appropriate and up to date. In order to meet this requirement, the Group ensured all transfer pricing and cost allocation methodologies were internally reviewed, updated and collated in a central repository. Internal Audit performed a limited procedures review of the documentation in January 2015 to give comfort over compliance with the Ofgem guidelines, with their next review planned for January 2018.

(i) Internal power off-take contracts are long-term power and associated renewable certificate sales from Generation owned assets to Domestic and Non-Domestic Electricity Supply. Pricing is indexed to published market prices, adjusted for the transfer of risks specific to the asset.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2016 principally arises from the Group's interests in the entities listed on page 4.

Under paragraph 5 of the Conditions, the information provided in the CSS includes our gross share of revenues, costs, profits and volumes of joint ventures and associates. In preparing the CSS, joint ventures and associates (which hold a UK generation licence or exemption) are accounted for as follows:

- our proportionate share of revenues of joint ventures and associates has been included within revenue;
- our proportionate share of the profit before tax of joint ventures and associates has been included within EBIT and EBITDA; and
- our proportionate share of the generation volumes of joint ventures and associates has been included within the generation volumes.

For each of the above items, our share of the income and expenses of the joint ventures or associates has been combined line-by-line within the relevant item of the CSS.

The Supply segment has investments in associates but because the investees' businesses do not relate to the sale of gas and electricity, the share of result (revenue of £0.7 million (2015: £2.0 million), EBIT loss of £0.5 million (2015: £1.0 million loss)) has been included net within indirect costs rather than gross, on a line-by-line basis.

Exceptional items and certain re-measurements

Mark-to-market adjustments, profits or losses on disposal, restructuring costs, pension past service credits and impairment charges that have been identified in the Centrica plc Preliminary Results 2016 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 6 in the Centrica plc Preliminary Results 2016.

The Nuclear sub-segment result includes a £20.9 million (2015: £19.6 million) profit from the revaluation of contingent valuation rights, related to the original acquisition of the Nuclear investment. There has also been an inventory write-down of £5.5 million (2015: nil) and a profit on disposal of the Killingholme power station site of £6.4 million (2015: nil) in the Thermal sub-segment. The Generation segment includes a net impairment reversal of £1.8 million (2015: £7.3 million charge). These results have been included in the Generation segment as they are not exceptional in size, nature or incidence, and do not materially change the Generation result.

The Non-Domestic Supply segment includes fines of £9.5 million for billing failures and £4.5 million for delays in smart meter roll-outs (offset by a £4.0 million provision previously held). These items have been included in the Supply segment as they are not exceptional in size and do not materially change the Non-Domestic result.

A reconciliation of the Segmental Statement revenue, EBIT, depreciation and Supply PAT to the 2016 Centrica plc Preliminary Results has been included in accordance with paragraphs 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

Ofgem Consolidated Segmental Statement

RECONCILIATION TO CENTRICA PLC PRELIMINARY RESULTS

The reconciliation refers to the segmental analysis of the 2016 Centrica plc Preliminary Results in note 5.

			Supply segment			
		Generation segment	Domestic		Non-Domestic	
	Notes	2016	Electricity 2016	Gas 2016	Electricity 2016	Gas 2016
Revenue (£m)						
Centrica plc Preliminary Results Segmental Analysis [i]						
UK Home/Business		–	9,252.0		2,030.5	
Central Power Generation		667.2	–		–	
Distributed Energy & Power (DE&P)		161.0	–		–	
Less UK Home Services and UK Business Services elements	1	–	(1,547.3)		(32.6)	
Add UK Home Supply intra-segment revenue	2	–	2.5		–	
		828.2	7,707.2		1,997.9	
Gas and Electricity allocation	3	–	3,208.7	4,498.5	1,459.1	538.8
Include share of JVs and associates	4	685.0	–	–	–	–
Exclude intra-segment revenues	5	(708.7)	–	–	–	–
Exclude non-Generation elements of DE&P revenues	6	(139.1)	–	–	–	–
Add Energy Marketing & Trading (EM&T) optimisation of generation revenues	7	514.9	–	–	–	–
Ofgem Consolidated Segmental Statement		1,180.3	3,208.7	4,498.5	1,459.1	538.8
EBIT (£m)						
Centrica plc Preliminary Results Segmental Analysis [i]						
UK Home/Business		–	810.0		50.0	
Central Power Generation		75.0	–		–	
Distributed Energy & Power (DE&P)		(25.9)	–		–	
Less UK Home Services and UK Business Services elements	1	–	(257.0)		(0.2)	
		49.1	553.0		49.8	
Gas and Electricity allocation	3	–	(125.9)	678.9	1.9	47.9
Exclude non-Generation elements of DE&P EBIT	6	26.3	–	–	–	–
Add Energy Marketing & Trading (EM&T) optimisation of generation EBIT	7	(3.6)	–	–	–	–
Ofgem Consolidated Segmental Statement		71.8	(125.9)	678.9	1.9	47.9

Ofgem Consolidated Segmental Statement

RECONCILIATION TO CENTRICA PLC PRELIMINARY RESULTS

Depreciation and amortisation (£m)

	Notes	Generation segment 2016	Supply segment: Domestic Electricity 2016	Supply segment: Domestic Gas 2016	Supply segment: Non-Domestic Electricity 2016	Supply segment: Non-Domestic Gas 2016
Centrica plc Preliminary Results Segmental Analysis [i]						
UK Home/Business		–	(162.0)		(13.3)	
Central Power Generation		(26.8)	–		–	
Distributed Energy & Power (DE&P)		(15.0)	–		–	
Less UK Home Services and UK Business Services elements	1	–	40.0		0.1	
		(41.8)	(122.0)		(13.2)	
Gas and Electricity allocation	3	–	(54.0)	(68.0)	(8.9)	(4.3)
Include share of JVs and associates depreciation	4	(163.2)	–	–	–	–
Exclude non-Generation elements of DE&P depreciation	6	16.4	–	–	–	–
Ofgem Consolidated Segmental Statement		(188.6)	(54.0)	(68.0)	(8.9)	(4.3)

PAT (£m)

	Notes	Generation segment 2016	Supply segment: Domestic Electricity 2016	Supply segment: Domestic Gas 2016	Supply segment: Non-Domestic Electricity 2016	Supply segment: Non-Domestic Gas 2016
Centrica plc Preliminary Results Segmental Analysis [i]						
UK Home/Business			672.0		42.3	
Less UK Home Services and UK Business Services elements	1		(209.6)		(0.2)	
			462.4		42.1	
Gas and Electricity allocation	3		(105.3)	567.7	1.6	40.5
Ofgem Consolidated Segmental Statement			(105.3)	567.7	1.6	40.5

(i) The table above reconciles the Generation segment to Central Power Generation and Distributed Energy & Power, the Domestic Supply segment to UK Home and the Non-Domestic Supply segment to UK Business in note 5 to the 2016 Centrica plc Preliminary Results. Also included in note 5 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Notes:

1. UK Home includes Home Services and UK Business includes Business Services which are non-licensed activities and have been deducted to reconcile these CSS numbers.
2. UK Home Supply generated revenue of £2.5 million from sales to UK Home Services (EBIT of nil). This revenue is eliminated on consolidation when reporting UK Home in the Centrica plc Preliminary Results but must be added back when reporting UK Home Supply
in the CSS.
3. The share of Domestic and Non-Domestic Revenues, Operating Profit (EBIT), Depreciation (including amortisation) and PAT (adjusted operating profit after tax) as provided in note 5 of the Centrica plc Preliminary Results 2016, has been split between Gas and Electricity.
4. £685.0 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS – £623.0 million relating to Nuclear revenues and £62.0 million relating to Renewables revenues. £178.1 million of EBIT in the Generation segment relates to profit from joint ventures (£166.0 million profit relating to Nuclear and £12.1 million profit relating to Renewables). Additionally, costs relating to the Group's share of joint ventures and associates: £97.1 million direct fuel costs, £228.2 million direct costs, £18.4 million indirect costs and £163.2 million depreciation and amortisation are included. The results of joint ventures and associates are shown separately in the Centrica plc Preliminary Results 2016 in note 12.
5. £708.7 million of intra-segment revenues, split £635.9 million between the joint ventures and associates and the Generation segment (included in the £685.0 million of joint venture and associate revenues) and £72.8 million between the CPG and EM&T segment (related to power station tolls), are excluded from the CSS.
6. DE&P includes North America and UK & Ireland Distributed Energy. Revenues of £139.1 million, EBIT loss of £26.3 million and depreciation of £16.4 million have consequently been excluded from the Generation segment of the CSS.
7. £514.9 million of revenues and an EBIT loss of £3.6 million relating to Centrica's EM&T optimisation are included in the Generation segment of the CSS.