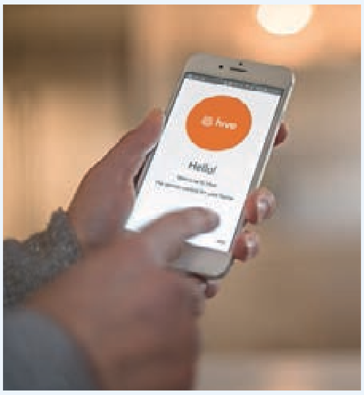
centrica

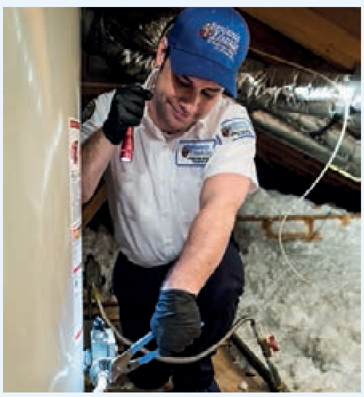
Satisfying the changing needs of our customers

Annual Report and Accounts 2015

"In July 2015, we announced the conclusions of our fundamental and wide-ranging strategic review. We concluded that Centrica's strength lies in being a customer-facing energy and services business. This is where we have distinctive positions and capabilities and where we can make the biggest difference and contribution going forward, for our customers, our employees and our shareholders."

Iain Conn
Chief Executive





CONTENTS

Group Results

OVERVIEW

Resilient financial performance in a challenging environment. Adjusted earnings per share of 17.2p, down 4%.

Adjusted operating cash flow up 2% to £2,253 million.

9% reduction in net debt to £4,747 million.

Post-tax exceptional items of £1,846 million primarily as a result of falling commodity prices.

Group robust in a low commodity price environment (flat real $35/bbl Brent oil, 35p/th UK NBP gas, £35/MWh UK power prices) with sources and uses of cash flow more than balanced over 2016–2018.

Confident in delivery of at least 3%–5% per annum adjusted operating cash flow growth from a 2015 baseline adjusted for the low commodity price environment[(i)]. 2016 adjusted operating cash flow expected to exceed £2 billion.

Proposed 2015 final dividend of 8.43p, resulting in a full year dividend of 12.0p and dividend cover of 1.4 times. Delivery of progressive future dividend tied to confidence in underlying operating cash flow.

Strategy implementation on track with growth focus on customer-facing activities; adjusted operating profit from energy and services businesses up 19% in 2015. E&P free cash flow positive in 2015.

£750 million per annum by 2020 cost efficiency programme underpinned in our plans; £200 million of savings expected in 2016.

GROUP FINANCIAL SUMMARY

Year ended 31 December	2015	2014 (restated*)	Change
Revenue	**£28.0bn**	£29.4bn	(5)%
Adjusted operating profit	**£1,459m**	£1,657m	(12)%
Adjusted effective tax rate	**26%**	30%	(4)ppt
Adjusted earnings	**£863m**	£903m	(4)%
Adjusted basic earnings per share (EPS)	**17.2p**	18.0p	(4)%
Full year dividend per share	**12.0p**	13.5p	(11)%
Adjusted operating cash flow	**£2,253m**	£2,201m	2%
Return on average capital employed	**11%**	11%	0ppt
Group operating costs	**£3,039m**	£2,903m	5%
Group net investment	**£855m**	£829m	3%
Group net debt	**£4,747m**	£5,196m	(9)%

Statutory operating loss	**£(857)m**	£(1,137)m	nm
Statutory loss for the year attributable to shareholders	**£(747)m**	£(1,012)m	nm
Net exceptional items after tax included in statutory loss	**£(1,846)m**	£(1,161)m	nm
Basic earnings per share	**(14.9)p**	(20.2)p	nm

GROUP KEY OPERATIONAL PERFORMANCE INDICATORS

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

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

(ii) 2014 British Gas residential services product holdings have been restated to include 41,000 holdings following data assurance activity of our analytical systems.

(iii) Group direct headcount excludes contractors, agency and outsourced staff.

Group Performance Summary

Adjusted earnings

£863m

	Adjusted earnings
2015	£863m
2014	£903m*
2013	£1,333m*
2012	£1,322m*

Revenue

£28.0bn

	Revenue
2015	£28.0bn
2014	£29.4bn
2013	£26.6bn
2012	£23.9bn

Dividend per share

12.0p

	Dividend per share
2015	12.0p
2014	13.5p
2013	17.0p
2012	16.4p

IMPLEMENTING THE STRATEGY

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

*Restatement details

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

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the announcement are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 34 to 37.

Chairman's Statement

"Centrica is first and foremost a customer-facing business. We are an energy and services company and our purpose is to deliver energy and services to satisfy the changing needs of our customers."

Rick Haythornthwaite, Chairman

The Group has delivered a resilient performance for 2015, during what proved to be an incredibly challenging period for both the energy sector and the global economy. These results, the first full year under Iain Conn's leadership, are a testimony to the resilience of our businesses, particularly those that are customer facing, and the dedication and hard work of our employees.

STRATEGIC REVIEW

In July 2015, we announced the results of the Group's strategic review. This review was largely driven by changing external factors and the Board's decision to question whether we had the right strategy and mix of businesses to take advantage of future opportunities. As a Board, we fundamentally reassessed our strategy and the direction we wanted to take the Group.

In February 2015, we took the tough but necessary decision to cut the dividend, having reduced capital investment. This was a further reason to review the Group's strategic direction so that we could move into the next phase with confidence and certainty.

Our review concluded that Centrica is first and foremost a customer-facing business. We are an energy and services company and our purpose is to deliver energy and services to satisfy the changing needs of our customers.

The outcome of the review requires a change to our portfolio mix with our growth areas focused on our customer-facing businesses and a reduced scale in gas and oil E&P to a level which will still allow us to participate effectively in that market,

Serving our customers for over 200 years...

1812–1948
Gas Light & Coke Company formed

The Gas Light & Coke Company, formed by Frederick Winsor, was incorporated by Royal Charter in 1812. In 1948, the Gas & Coal Act nationalised the industry merging over 1,000 privately owned and municipal companies into 12 area gas boards.

1973
British Gas Corporation established

The Gas Council is abolished following the introduction of the Gas Act in 1972 and British Gas Corporation is established in 1973. The corporation is responsible for the development and maintenance of the supply of gas to Great Britain.

1986
British Gas privatised

British Gas Corporation is privatised and British Gas plc is formed. The 'Tell Sid' campaign is launched allowing customers to buy a stake in British Gas. Ofgas, the forerunner of Ofgem, is created to regulate the gas industry.

diversify our cash flows and help us to manage risk by contributing to the strength of our balance sheet. Although we are making significant investment now, the benefits from these changes will be realised over the next three to five years.

21ST CENTURY ENERGY COMPANY

We believe in operating transparently, treating employees fairly and linking reward to performance. These principles are not only the 'right thing to do' but make good business sense too.

We also believe that we have a duty to make a positive contribution to the communities in which we operate. In the UK alone, Centrica supports 174,000 jobs and 6,000 companies supplying goods and services through our supply chain. In addition, we provide opportunities for training and apprenticeships to upskill and motivate our workforce.

Within the energy sector, we face particular challenges around sustainability:

- heightened expectations for support to be given to those who are most affected by the additional costs of carbon reduction targets;
- prioritising technologies of lowest cost and least regret; and
- setting simple cost-effective decarbonisation targets.

The Board is engaged in understanding the potential of new technology and big data in our sector and the role that leadership can play in exploiting new opportunities and guarding against new risks. In order to succeed in the 21st century, we will need to focus our energies on building trust, being nimble in our formulation of strategy and attracting new talent to Centrica who can provide us with competitive advantage. Crucially, we will need to do this while maintaining our aim to deliver long-term shareholder value through both returns and growth. These goals are neither easy nor will they be achieved overnight but they are an essential element of our journey to transform Centrica.

BOARD CHANGES IN 2015

At the start of the year, Iain Conn was appointed as the Group's Chief Executive and he has shown that his breadth of knowledge and commitment to customers and safety make him ideally suited to lead Centrica in the next phase of its development. He has made a significant contribution in leading the Group's strategic review and has underpinned the outcome with comprehensive implementation plans.

During the year, both Carlos Pascual and Steve Pusey joined the Board as Non-Executive Directors. Carlos' experience in international energy geopolitics and economic and commercial development has enhanced the Board's global perspective and he has brought strong challenge to the strategic review. Steve's considerable international experience as a senior customer-facing business technology leader has provided a new dimension to our Board's discussions and undoubtedly this helps us develop our thinking in respect of our innovative offerings to customers.

Mark Hodges, Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland also joined the Board in 2015. Mark has substantial experience of running a major UK customer-facing business and has a strong track record in improving customer service, increasing performance and driving growth through innovation. Mark is well placed to lead the business in this next phase and our customer-facing businesses are already benefiting significantly from his capabilities. Jeff Bell, who was appointed as interim Group Chief Financial Officer, has been confirmed in post. Jeff brings extensive experience in driving financial performance and has a strong track record in developing and leading finance teams both in the UK and in North America having joined the Group in 2002.

CORPORATE GOVERNANCE FRAMEWORK

During 2015, the Board undertook a fundamental review of the Group's principal risks and its corporate governance framework and considered the primary roles of the Board's Committees and their membership. A new Committee was convened, the Safety, Health, Environment, Security and Ethics Committee (SHESEC), under the chairmanship of Mike Linn. Its purpose is to ensure the effective management of risks in respect of people: engagement, culture and behaviours; sourcing and supplier management; health, safety, environment and security; information systems security; and legal, regulatory and ethical standards compliance. There is further discussion on the corporate governance framework and individual Committee reports in the Directors' and Corporate Governance Report starting on page 47.

1997

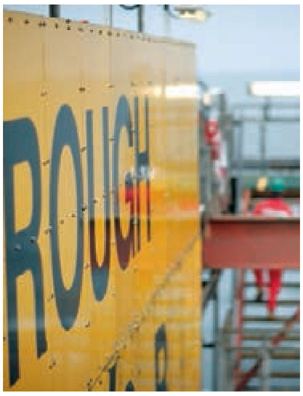
Centrica plc formed

Centrica is formed when British Gas plc is demerged into two separate companies; Centrica plc and BG plc. Centrica maintains the British Gas brand in the UK.

2000

Direct Energy acquired

Centrica's acquisition of Direct Energy marks a major step in international expansion. Direct Energy is the largest unregulated retailer of natural gas in North America.



2002–2003

Rough storage facility secured

Centrica acquired the Rough offshore gas storage facility off the East Yorkshire coast. This is the largest gas storage facility in the UK, holding the majority of the UK's current storage capacity.

Chairman's Statement continued

"Our strategic direction involves less reliance on upstream and more investment in sources of differentiation in Energy Services, Connected Home, Distributed Energy & Power and Energy Marketing & Trading."

READ MORE IN OUR BUSINESSES ON PAGE 12.

BOARD EVALUATION

Centrica has for many years conducted a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers such annual reviews as an essential part of good corporate governance. In 2015, we assessed our effectiveness internally building on the findings from the 2014 external exercise. We focused on our progress against our improvement agenda and new reflections in the light of our evolving context and composition. This is discussed further in our Directors' and Corporate Governance Report on page 50.

DIVERSITY

Centrica continues to support diversity in all its forms, from the top of our organisation down. We believe that a mixed, diverse workforce is best able to engage with our customers and society. We know that diversity drives better insight and understanding of customers, leads to better innovations and itself attracts diverse talent. More information on our diversity agenda can be found on page 50.

OUTLOOK

For 2016, continued weaknesses in commodity prices will provide challenges for the Group. However, I am confident in the Group's resilience against this backdrop. The Group will continue to engage actively in discussions on energy policy in the UK, Europe and North America in the interests of our customers and stakeholders.

The clear outcome of the 2015 UK general election has provided greater political certainty. The Competition and Markets Authority (CMA) investigation into the UK energy market is ongoing and we welcomed this wide-ranging review and the possibility that it will have a constructive influence on competition in the sector.

The Group is underpinned by our competitive advantage including our strong market share in the geographies we operate in, good brands and deep energy services capability. Building on these strengths, our strategic direction involves less reliance on upstream and more investment in sources of differentiation in Energy Services, Connected Home, Distributed Energy & Power (DE&P) and Energy Marketing & Trading (EM&T).

Looking ahead, our people and our technologies are what will make us distinctive, giving us the competitive advantage to not only respond to the changing global energy sector but to win for our customers. For these reasons, I believe this is an exciting time for Centrica.

Rick Haythornthwaite
Chairman
18 February 2016

2009

Centrica expands in the North Sea and into nuclear

Centrica acquired Venture Production to become a leading operator of mature and orphaned gas assets in the UK continental shelf and acquires a 20% interest in British Energy's nuclear fleet of power stations from EDF.

2013

Energy Marketing business of Hess Corporation acquired

Direct Energy acquired the Energy Marketing business of Hess Corporation. This made Direct Energy the largest business gas supplier on the US East Coast and the second largest business power supplier in the US retail markets.

2014

Bord Gáis Energy acquired

Centrica acquired Bord Gáis Energy, a vertically integrated energy supply business in the adjacent market of the Republic of Ireland from Bord Gáis Éireann, the state-owned energy company.

2015

AlertMe and Panoramic Power acquired

British Gas completed the acquisition of AlertMe, a UK-based connected home company. Direct Energy also acquired Panoramic Power, a leading provider of device-level energy management solutions.

Chief Executive's Statement

"We have a clear strategy for delivering growth and returns built around the customer and I am encouraged by the progress we have made."

Iain Conn, Chief Executive

OVERVIEW

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

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

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

Key events in 2015...

January

British Gas and Bord Gáis Energy announce price cuts

British Gas announced a 5% reduction in Standard and Fix & Fall household gas tariffs benefiting 6.8 million customers. Bord Gáis Energy announced it would cut the unit rate of gas by 3.5% and the unit rate of electricity by 2.5%.

February

Strategic review announced

Centrica announced a fundamental strategic review of the Group, largely driven by changing external factors and the Board's decision to question whether we had the right strategy and mix of businesses to take advantage of future opportunities.

Chief Executive's Statement continued

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

2015 PERFORMANCE

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

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

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

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

CASH FLOW RESILIENCE

We made good progress during the year in our actions to improve cash flows and strengthen the Group's financial position. Adjusted operating cash flow of £2,253 million was up 2% compared to 2014, with increased cash flow from our customer-facing businesses offsetting the impact of lower wholesale prices on E&P. We took action to reduce capital expenditure to just over £1 billion, including two small acquisitions. Combined with our decision to re-base the dividend in February 2015, the introduction of a scrip dividend alternative, and some divestment proceeds, net debt fell by 9% or £449 million to £4.7 billion. Reflecting our focus on costs and capital discipline, our E&P business was free cash flow positive in 2015.

The steep falls in wholesale commodity prices will continue to have a material impact on the operating cash flows from our E&P and central power generation businesses in 2016 and beyond, if current levels persist. However, our customer-facing businesses are delivering resilient cash flows and benefits from our cost efficiency programme are starting to be realised. If current low wholesale prices continue beyond 2016, we have the flexibility to reduce our E&P capital expenditure further to the bottom end of our £400 million– £600 million range. As a result, we currently project that our sources and uses of cash flow will remain more than balanced over the period 2016–2018, even if flat real wholesale oil, gas and power prices remain at low levels of $35/bbl Brent oil, 35p/th UK NBP gas and £35/MWh UK power.

March

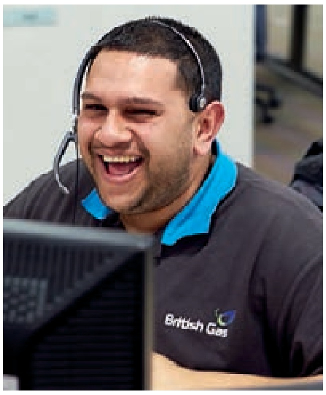
Direct Energy in ground breaking loyalty programme

Direct Energy became a participating member of Plenti, the first of its kind US-based coalition loyalty programme. The programme offers customers the opportunity to earn promotional points for signing up for qualifying energy plans enhancing Direct Energy's customer proposition.

April

Dedicated to serving customers

British Gas dedicated an additional £50 million investment over three years, demonstrating its commitment to customer service excellence.



May

Centrica extends gas supply contracts

Centrica extended contracts with Statoil and Gazprom Marketing and Trading. The separate deals will meet the gas needs of nine million British homes every year.

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

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

Our customer-facing businesses are a source of competitive advantage given our distinctive positions and capabilities, and these businesses will be our focus areas for growth. As we set out in July, we expect to invest an additional £1.5 billion of operating and capital resources into these growth areas – Energy Supply & Services, Connected Home, DE&P and EM&T – over the next five years. Implementation of our strategy is on track and we have made some material early progress in all of these areas.

In Energy Supply & Services:

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

In Connected Home:

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

In Distributed Energy & Power:

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

In Energy Marketing & Trading:

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

REFOCUSING OUR E&P AND POWER BUSINESSES

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

As a result of capital discipline and cost efficiency programmes, E&P was free cash flow positive in 2015 despite the current low wholesale price environment. In the near term, at current depressed wholesale prices

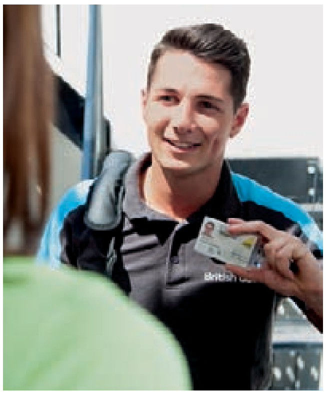
July

British Gas cuts prices again

British Gas announced its second gas price reduction in six months bringing the average total savings in 2015 to £72 for British Gas customers. The price cut benefits 6.9 million British Gas customers on Standard and Fix & Fall tariffs.

Conclusion of the strategic review

The review identifies a clear direction for the business. Growth ambitions will focus on customer-facing activities. Sources of competitive advantage include strong market shares, good brands and deep energy services capability.



Chief Executive's Statement continued

we will only invest in new E&P developments if the Group's cash flows can support the investment and the projects indicate good returns over a range of price environments. We currently expect to invest around £500 million in 2016, reflecting expenditure on existing in-flight projects such as Cygnus and Maria. However, in the absence of a recovery in oil and gas prices, we could potentially make further reductions to the levels of E&P capital expenditure.

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

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

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

COST EFFICIENCY

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

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

ORGANISING AROUND OUR CUSTOMERS

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

We have therefore moved to establish a single group of international businesses and have created eleven business units. We have combined our energy and services activities around our residential and business customer segments and a common operating model, with the creation of UK Home, UK Business, North America Home, North America Business and Ireland business units. This will allow us to more effectively deliver products and services which respond to changing customer needs at a competitive price. The Home and Business units in both the UK and North America will be supported by common operating functions of Field Operations and Customer Operations, while our new Connected Home and DE&P business units will also leverage Home and Business respectively to sell their products.

EM&T will continue to provide services to the other businesses, while E&P, Nuclear

August

Smart meter landmark

British Gas announced that 1.5 million smart meters have been installed in UK homes. Smart meters put an end to estimated bills, giving customers greater understanding and control of their energy consumption.

September

Bord Gáis Energy cuts prices again

Bord Gáis Energy announced its second price cut in 2015. Bord Gáis Energy customers unit rate of gas was cut by a further 2.5% and the unit rate of electricity by a further 2.0%.

October

New well at York field

Drilling began for a new well at the York field that will tap into an additional 20 billion cubic feet of gas, enough to heat half a million UK homes for a year. Gas from the field is processed at Easington by Centrica Storage.

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

KEY PERFORMANCE INDICATORS AND NEW SEGMENTS

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

Details of these KPIs can be found at centrica.com/performance. We intend to report these KPIs in each half year and full year results announcement, starting at our Interim Results in July 2016.

In addition, new reporting segments are in place, effective from 1 January 2016, aligned to the new strategy and the way we now run the business. These will also be reported against for the first time at our Interim Results in July 2016. Details of the new segments can be found on page 13.

COMPETITION AND MARKETS AUTHORITY INVESTIGATION

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

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

2016 OUTLOOK AND SUMMARY

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

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

Iain Conn
Chief Executive
18 February 2016

November

Major investment at gas-fired South Humber Bank power station

Centrica confirmed a £63 million investment at South Humber Bank gas-fired power station, securing the future of the site up to 2027. The power station is capable of producing enough electricity to meet the needs of over one million UK homes.

December

Growth in Connected Home

Connected Home confirmed sales of over 250,000 smart thermostats in the UK to the end of 2015. Three million customers in the UK, North America and the Republic of Ireland also now have access to our analytics and insight products.

How We Create Value

OUR PURPOSE

We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers.

OUR STRATEGY

Long-term growth

- Energy Supply & Services
- Distributed Energy & Power (DE&P)
- Connected Home
- Energy Marketing & Trading (EM&T)

Cash flow and balance sheet strength

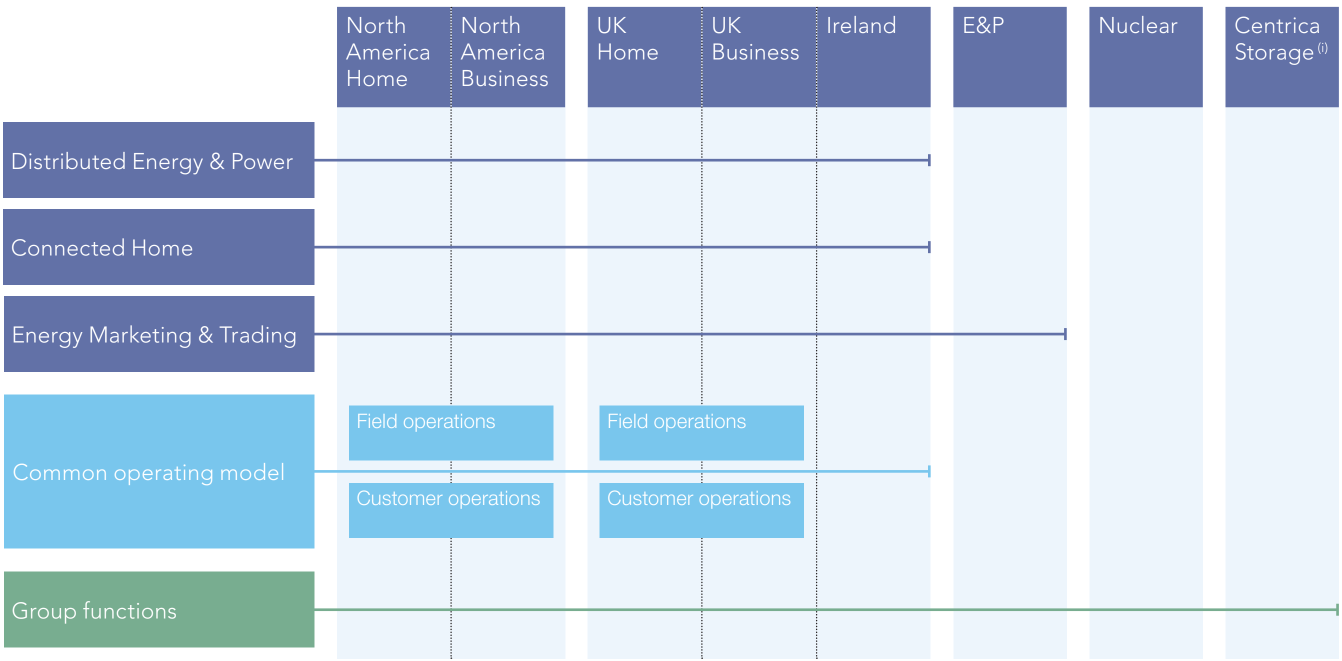
- Exploration & Production (E&P)
- Central Power Generation
- Centrica Storage

SEE PAGES 14 TO 19 FOR MORE DETAIL ON OUR STRATEGY AND PAGES 38 TO 42 FOR INFORMATION ON HOW OUR RISKS ARE MANAGED.

OUR ORGANISATIONAL MODEL

Underpinning how we create value is our new operating model which is aligned to our strategy and our focus on customer-facing businesses.

- Business unit
- Operating function
- Group function



(i) Centrica Storage is operated as a separate ring-fenced entity.

OUR LONG-TERM FINANCIAL GOALS

Deliver long-term shareholder value through returns and growth.

DELIVERING OUR LONG-TERM FINANCIAL GOALS THROUGH A CLEAR FINANCIAL FRAMEWORK

Targets	Metrics
Operating cash flow (OCF)	• 3% to 5% growth per annum
Dividend	• Progressive in line with OCF
Controllable costs	• Cost growth < inflation
Capital reinvestment	• Investment < 70% of OCF • Limited to £1 billion per annum in 2016/2017
Credit rating	• Strong investment grade
Return on average capital employed (post-tax)	• 10% to 12%

OUR COMPETITIVE ADVANTAGE

Serving our customers is what we are known for, what we are good at and where we have distinctive capabilities.

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. These areas will receive additional operating and capital resources of approximately £1.5 billion over the next five years.

THROUGH THE ACHIEVEMENT OF OUR STRATEGY WE WILL REALISE OUR GOALS TO BECOME

A trusted corporate citizen

An employer of choice

A 21st century energy company

WITH OUR PRIMARY FOCUS ON

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

Our Businesses

OUR BUSINESSES IN 2015

An integrated energy company, participating throughout the energy value chain.

British Gas

British Gas is the UK's leading energy supplier and offers a comprehensive range of services from boiler installation and maintenance to plumbing and drains.

Adjusted operating profit
£809m
2014: £823m

Direct Energy

Direct Energy is one of the largest retail providers of electricity, natural gas and home services across North America.

Adjusted operating profit
£328m
2014: £150m

Bord Gáis Energy

Bord Gáis Energy is a leading supplier of energy in the Republic of Ireland.

Adjusted operating profit
£30m
2014: £7m

Centrica Energy

Centrica is one of the top gas producers on the UK continental shelf.

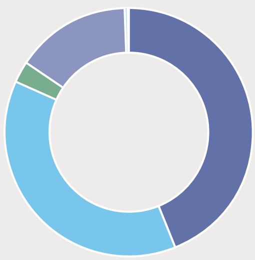
Adjusted operating profit
£255m
2014: £648m*
*Restated – see page 1 for details.

Centrica Storage

Centrica Storage's Rough gas storage facility is the largest in the UK.

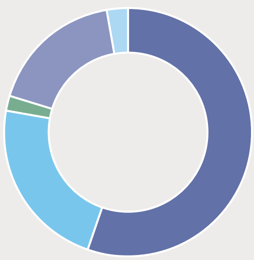
Adjusted operating profit
£37m
2014: £29m

Breakdown by operating revenue



British Gas	£12,303m
Direct Energy	£10,587m
Bord Gáis Energy	£733m
Centrica Energy	£4,242m
Centrica Storage	£106m

Breakdown by adjusted operating profit



British Gas	£809m
Direct Energy	£328m
Bord Gáis Energy	£30m
Centrica Energy	£255m
Centrica Storage	£37m

READ MORE ABOUT OUR 2015 PERFORMANCE IN THE BUSINESS REVIEW ON PAGES 28 TO 33.

OUR GROUP STRATEGIC REVIEW

Our strategic review carried out in 2015 concluded that Centrica's strengths lie in being a customer-facing business.

Our focus is to deliver for the changing needs of our customers, by continuing to develop our existing services and by accessing new strategic opportunities.

We are reducing the scale of our E&P business to a sustainable level which will allow us to participate effectively, diversify our cash flows and help us to manage risk by contributing to the strength of our balance sheet.

READ MORE ABOUT HOW WE CREATE VALUE ON PAGES 10 AND 11.

OUR FUTURE BUSINESSES

A customer-facing energy and services company for the 21st century.

Energy Supply & Services

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

Distributed Energy & Power

Our vision is to provide large scale C&I consumers with the ability to use energy more intelligently, giving customers tools to generate and manage their energy usage.

Connected Home

Our Hive smart thermostat and other products and services help our customers manage their energy use in the UK, the Republic of Ireland and North America. We plan to build a global business providing new and innovative solutions for consumers across the world.

Energy Marketing & Trading

Operating in UK and European energy markets we trade in energy produced both inside and outside the business. EM&T is the trading arm of Centrica and provides the route to market for our production and power generation operations.

Exploration & Production

Targeting production of between 40–50mmboe per year focused on the North Sea and East Irish Sea.

Central Power Generation

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

Centrica Storage

We intend to hold our Rough gas storage facility to ensure it fulfils its role as the main strategic storage asset for the UK.

OUR BRANDS

Strong customer-facing brands and distinctive capabilities.

READ MORE ABOUT OUR NEW BUSINESSES ON PAGES 14 TO 19.

Our focus for long-term growth

Supplying energy and providing distinctive and leading services

1 Energy Supply & Services

UK & IRELAND

Our energy supply businesses will continue to be a key contributor to Group cash flow. In the UK, given a highly competitive market, our focus for growth will be through significantly improved cost efficiency and customer service to underpin better retention levels. We expect these to offset the impacts of competitive intensity and reducing consumption. By leveraging our capability to innovate and compete, we believe that we can offer compelling propositions to customers.

In services, we are building on our capability in service delivery to develop new propositions to appeal to new customer segments.

In the Republic of Ireland we will look to increase our share of electricity supply and energy services facilitated by a market more recently deregulated than the UK.

NORTH AMERICA

Our North American customer-facing businesses are an important part of the Group and we see opportunities to increase market share. In residential energy supply, we are focused on developing a more sustainable business model through the development of improved bundled propositions, greater focus on customer mix and achieving better retention levels. In business energy supply, the acquisition of Hess Energy Marketing in 2013 has provided us with a market leading position and a strong base from which to deliver sustainable returns over the long term.

In our North American services business we are the US market leader, albeit with a small market share in a very fragmented market, and believe there is strong potential for growth from the wide range of products we are able to offer.

Our focus for long-term growth

Focusing on distributed energy offerings

2 Distributed Energy & Power

Distributed energy, including energy efficiency, flexible generation and new technologies, is an activity which, alongside energy management and optimisation, we expect to provide significant growth potential for Centrica in the long term. This activity will be targeted at commercial and industrial (C&I) customers in all the geographies in which we operate. Although building up our capability in this area will require additional investment, many of the skills associated with distributed energy already exist in the Group.

We have a good starting position and this is an attractive opportunity for Centrica. We expect to invest up to £700 million of additional operating and capital resources in this area over the next five years.

Investing in Smart technologies in the home

3 Connected Home

We believe that our Connected Home offerings will become increasingly important, with propositions linked to our core energy and services products in the UK, the Republic of Ireland and North America. These propositions will help to underpin better retention levels as well as provide growth opportunities in their own right.

We already have products in the market under our Hive brand and have built high quality end-to-end capability in this area, with operating platform design and operation, hardware and software development, data analytics, installation and maintenance. Given these capabilities, the scale of our existing customer relationships and our ability to directly support customers through our national network of engineers and technicians, we will be able to compete effectively in this space.

To drive growth, we are investing £500 million in operating costs and capital expenditure in our Connected Home activities over the next five years.

Our focus for long-term growth

Building our international capability in energy marketing and trading

4 Energy Marketing & Trading

EM&T provides a good opportunity for growth and is an area where we already have strong capabilities. In LNG, the first commercial delivery under our US gas export contract with Cheniere is expected in late 2018 or early 2019 and we have been actively building both our capability and market presence in LNG.

We will also continue to expand our route to market services and to utilise our knowledge of European energy markets to benefit from trading and optimisation activity.

We expect to invest an additional £150 million of operating costs and capital expenditure in this area over the next five years.

Supplying energy and providing cash flow and balance sheet strength

Exploration & Production

The role of Exploration & Production (E&P) in the portfolio is to provide cash flow and balance sheet strength. We have determined that a stable E&P business which produces around 40–50mmboe per annum, and requires £400 million to £600 million of capital expenditure each year, is sufficient to fulfil this role. This compares to a business which produced 75-80mmboe and incurred capital expenditure of around £1.1 billion in both 2013 and 2014 as we sought to grow E&P.

We will focus our E&P activity on the North Sea and East Irish Sea, where we are material enough to play a major role in the UK and Netherlands as well as having the capability and presence in Norway to allow us to access additional value opportunities.

Central Power Generation

In thermal power, we will continue to operate our existing small gas-fired fleet, maximising optimisation activity and seeking opportunities to make investments in improving the fleet where economics allow. We will maintain a watching brief as the capacity market evolves, and will retain sufficient capability to enable us to continue to manage power assets in the future. However, we will not increase our emphasis on central thermal generation, preferring to seek opportunities in peaking units and distributed generation. Additionally, we intend to continue to dispose of our interests in wind generation.

Our participation in nuclear power generation is an attractive financial investment but provides limited strategic optionality for the Group.

Centrica Storage

Our offshore gas storage asset, Rough, is the largest in the UK. We do not see it as a growth option in the current environment and will focus on safety, compliance and efficiency of the asset. We will continue to work with the UK Government on any changes necessary to ensure Rough fulfils its role as a strategic asset for UK energy security.

Key Performance Indicators

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

Link to reward in 2015

The performance of these KPIs is linked to the remuneration arrangements for Executive Directors.

READ MORE IN THE REMUNERATION REPORT ON PAGE 64.

For 2016

The primary long-term financial goal for the Group is now adjusted operating cash flow (AOCF) growth. AOCF is now the basis of the Annual Incentive Plan (AIP) financial measure.

READ MORE IN THE REMUNERATION REPORT ON PAGES 63 AND 70.

Non-financial KPIs

Deloitte LLP review selected non-financial KPIs and provide limited assurance using the International Standard on Assurance Engagements ISAE 3000 (Revised). The full assurance statement and Basis of Reporting are available online.

CENTRICA.COM/CRASSURANCE.

Financial key performance indicators

Adjusted operating profit

Operating profit is our key measure for financial performance. 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.

With the impact of continued falls in wholesale oil and gas prices only partially offset by higher profit in our customer-facing businesses, adjusted operating profit was down 12%.

Link to reward
Short and long-term incentive

Adjusted operating profit

£1,459m

2015	£1,459m
2014	£1,657m*
2013	£2,586m*

* Restated – see page 1 for details.

Adjusted basic earnings per share (EPS)

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

Reflecting the lower adjusted operating profit, partially offset by a lower tax rate due to lower profits from the highly-taxed E&P business, adjusted basic EPS was down 4%.

Link to reward
Long-term incentive

Adjusted EPS

17.2p

2015	17.2p
2014	18.0p*
2013	25.9p*

* Restated – see page 1 for details.

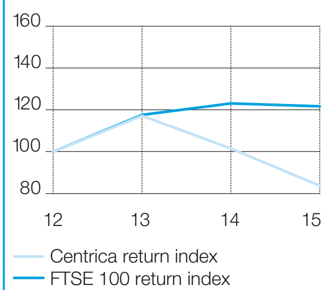
Total shareholder return (TSR)

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 2015 by 12.5%.

Link to reward
Short and long-term incentive

TSR indices (unaudited)



Source: Datastream

(i) Unit has been updated from 100,000 hours worked to better align with industry standards.
(ii) Restated to align with the updated unit.
(iii) British Gas and Direct Energy NPS is not comparable due to different methodologies.
(iv) Restated due to changes in methodology which now focuses on experiences at the end of key customer journeys.
(v) Data is not comparable with 2014 or 2015 due to changes in methodology.

Non-financial key performance indicators

Lost time injury frequency rate (LTIFR)

We prioritise safety because it spans all of our activities, from working in customer homes to securing energy offshore.

In 2015, our LTIFR rose by 21% to 0.34 per 200,000 hours worked[i] (high performance zone).

We are working hard to reduce the occurrence of these injuries by delivering new leadership training and embedding a stronger health and safety culture among our people.

Link to reward
Long-term incentive

LTIFR per 200,000 hours worked

0.34

2015 0.34
2014[ii] 0.28
2013[ii] 0.22

Process safety

Process safety is a key focus where we source, generate and store energy so that we can prevent potential major incidents, such as fires and explosions.

One significant process safety event occurred in 2015 (high performance zone). The event resulted in the permanent disablement of a contractor.

We have created a three-year process safety improvement plan that will strengthen employee leadership and capability alongside enhancing asset management and assurance processes.

Link to reward
Long-term incentive

Significant events

1

2014 and 2013: 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)[iii].

NPS for British Gas increased to +4 (median performance zone) in 2015. The rise was mainly due to service improvements in key customer journeys as well as competitive price reductions.

NPS for Direct Energy declined slightly to +37 (high performance zone).

Link to reward
Long-term incentive

NPS

British Gas

+4

2015 +4
2014[iv] -4
2013[v] +15

Direct Energy

+37

2015 +37
2014 +38
2013 +40

Employee engagement

Creating a great place to work, that motivates and enables our people to fulfil their potential, is a key driver of employee engagement and being an employer of choice.

To achieve this, our people provide feedback which helps us understand what we are doing well and where we need to improve.

In 2015, our employee engagement score increased slightly to 4.84 out of 6 (median performance zone). This is our highest result to date and remains above average compared to peer companies.

Link to reward
Long-term incentive

Employee engagement

4.84 out of 6

2015 4.84
2014 4.79
2013 4.81

How We Do Business

As a leading energy and services company with more than 200 years of experience, we are well positioned to satisfy the changing needs of our customers.

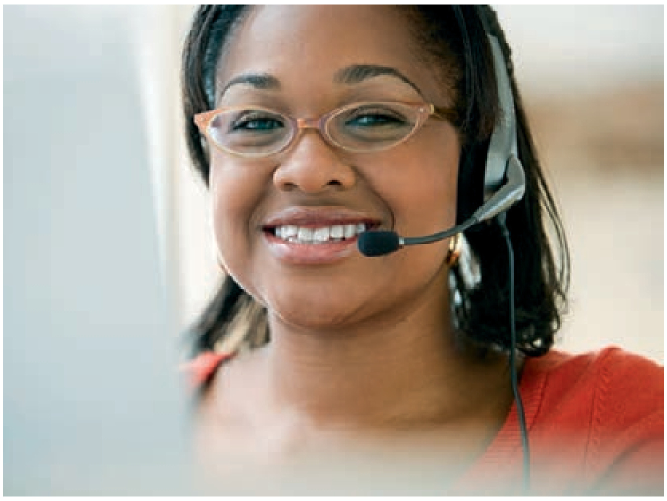
To deliver this purpose, we must continue to improve and evolve how we do business. We are building stronger relationships with key stakeholders that help us become a better corporate citizen and an employer of choice, with the capabilities necessary for delivering an excellent service in a safe and responsible way. We are also making an important contribution to address big issues in society related to energy: from energy pricing and vulnerability to energy security and climate change.

By improving how we do business, we will better adapt to the challenges and opportunities that arise in the rapidly-changing world of energy and build trustworthiness in our business and sector. Not only will this secure our long-term sustainable growth, it will define us as a 21st century energy and services company acting for, and on behalf of, our current and future customers.

EXPLORE MORE ABOUT HOW WE DO BUSINESS AT CENTRICA.COM/CR.

Strengthening relationships for a better energy future

Quality relationships with key stakeholders help evolve how we do business and determines our long-term success.



PRIORITISING SAFETY

Ensuring the safety of our people, customers and communities is our top priority. Focus on safety also makes us a stronger, more productive business for meeting our customers' needs.

All our engineers undergo training to reduce safety risks in customer homes. Despite this, 46 incidents such as trips and falls occurred compared with 29 in 2014. In 2016, we will re-focus our approach to customer safety and introduce improved working practices that reduce risk for our customers.

Our lost time injury frequency rate for employees increased from 0.28 per 200,000 hours worked in 2014 to 0.34[i]. Our total recordable injury frequency rate also rose to 1.10 per 200,000 hours worked against 1.00 in 2014[i].

Across exploration and production, we received three Improvement Notices from the UK Health and Safety Executive and experienced one significant process safety event in Canada, which led to a contractor being disabled following exposure to liquid nitrogen while filling a storage tank. This was up from one Improvement Notice and zero significant process safety events in 2014. Eight high potential events that could have resulted in a serious incident also occurred in 2015. Process safety therefore remains a major focus and we have created a three-year improvement plan that will strengthen employee leadership and capability alongside enhancing asset management and assurance processes.

DEVELOPING SKILLS

We must secure skills that satisfy our customers' changing needs while helping our people fulfil their potential.

During 2015, British Gas invested £24.5 million in training 9,000 engineers and 1,200 apprentices. We additionally improved the skills of over 20 apprentices in exploration, production and power alongside 70 people on the graduate programme. Following a successful pilot, Direct Energy will train 100 new technicians in 2016 through our partnership with a local technical school.

In order to retain and reward our skilled workforce, we are determined to provide fair remuneration. That is why in 2015, we made the commitment to pay at least the Living Wage to our people located in the UK.

IMPROVING CUSTOMER SERVICE

Customers are at the heart of our business and we recognise the need to strengthen our relationship with them by improving our service.

British Gas is investing an additional £50 million between 2015 and 2017 to deliver a better service for residential consumers which will enhance customer service systems, increase resourcing by around 10% and deliver extra training to call centre advisers. More than 350 advisers have already been recruited, while training rose 24% towards our aim of 30% more training days by the end of 2016 compared to 2013. This brings the average monthly training hours per person to 14, up from 11 in 2014.

British Gas invested £24.5 million in training 9,000 engineers and 1,200 apprentices.

Meanwhile, service levels for business customers were lower than planned following issues relating to the migration to new customer service systems. We are, however, beginning to see improvements that are expected to continue in 2016.

In North America, Direct Energy increased overall training per person from 10 hours in 2014, to 12 hours on average each month. Furthermore, new call centre advisers underwent training to increase call-handling efficiency.

Over time, these investments should help reduce complaints and improve satisfaction. Our net promoter score (NPS)[ii] which measures satisfaction, increased in British Gas to +4 from -4[iii] in 2014. Direct Energy NPS declined from +38 in 2014, to +37.

EMBEDDING ETHICS

To create sustainable business success and value in society, it is vital we have a strong moral compass underpinning all of our relationships and activities.

Our Business Principles set out the ethical standards we expect and in 2016, we will evolve our approach to ethics to ensure we obtain the highest levels of conduct and compliance.

We also work with suppliers to uphold ethical, social and environmental standards in the products and services we buy. This reduces risk while increasing transparency and reliability in our supply chain. In 2015, 46 potentially higher risk suppliers completed assessment on these issues, resulting in an average supplier risk score of 54 (low risk). This is better than the multi-industry average of 42 (medium risk) and marks an improvement from 51 (low risk) in 2014. Where suppliers receive a medium or high risk rating, we collaborate to raise standards by creating corrective action plans.

(i) Unit has been updated from 100,000 hours worked to better align with industry standards. 2014 performance has been restated to align with the updated unit.

(ii) British Gas and Direct Energy NPS is not comparable due to different methodologies.

(iii) Restated due to changes in methodology which now focuses on experiences at the end of key customer journeys.

Supporting changing customer needs

Energy can be complex but we are making it easier to understand and control, while ensuring support for those most in need.

THE ISSUE AND OUR ROLE

Every household receives energy bills but not enough people understand their costs or how to reduce them. At the same time, changing and challenging financial circumstances mean some people struggle to pay for their energy.

We offer competitively priced tariffs to win and retain customers while providing innovative products and services that satisfy their changing needs. This gives customers greater understanding and control over energy, helping them use less of what we sell and lower their energy bills.

We also recognise our role to help government support vulnerable people with their energy needs. We are working across sectors and have formed strategic partnerships that deliver invaluable debt advice and financial support for those who need it most.

OUR PROGRESS

Providing competitive prices

We regularly review our energy prices to ensure they remain competitive. In the UK since November 2014, wholesale gas prices have reduced by 41% but as most of our energy is bought in advance to help protect customers from pricing volatility, our cost of gas has reduced by 24%. Wholesale energy costs make up 40% of the average British Gas residential dual fuel bill and was offset to some extent by other rising external costs, such as distribution charges alongside social and environmental taxes. British Gas was, however, able to reduce household gas prices three times since the start of 2015 and was the only major supplier to do so. The average residential dual fuel bill was cut by 14%, bringing the average daily charge for energy to around £3.14. Our post-tax profit margin for our UK residential customers was 5.6% in 2015.

To help reduce bills, we continued to advocate for a more cost-effective UK energy policy. This included engagement with government on our Energy Choices report, which outlines alternative pathways by prioritising lower cost technologies, setting cost-effective carbon targets while maintaining support for vulnerable people.

Investing for smarter energy use

With the most customers in the UK, British Gas is leading the mandatory smart meter roll-out, having installed 2.5 million in homes and businesses since 2009. This is around 70% of all smart meters installed in the UK[(i)]. Smart meters enable accurate billing and help customers explore their energy use and costs in real-time, allowing for more informed choices that can reduce bills. As a result, we are prioritising the roll-out to our vulnerable customers.

Using smart meter data, Direct Energy was able to launch North America's first online energy insights dashboard, 'Direct Your Energy'. Similar to British Gas' 'my energy' tool, energy use is shown by categories such as appliance and compares it to similar households, highlighting where savings might be made.

Hive is also a powerful tool for giving greater control over energy. Over 300,000 smart thermostats have been sold in the UK to control heating and hot water remotely, with 58% of Hive users saying it has helped save money on their energy bills. Hive is now available in the Republic of Ireland while a new family of products including smart plugs, lights and sensors, are being introduced throughout 2016, enabling more of the home to be controlled via an app.

We have also sold nearly 200,000 smart thermostats in North America, helping Direct Energy customers save up to 20% on their energy bills.

To further develop our leadership capabilities in cutting-edge products, we acquired AlertMe, an energy management and services company and have established a global Connected Home business in which we will invest £500 million over the next five years. Panoramic Power were also acquired to lead the future development of wireless sensors that identify ways businesses can reduce operating costs.

Helping those who need support

Over 3,000 customers in North America were supported through our Neighbor-to-Neighbor bill assistance programme in Texas, while 1.9 million vulnerable customer households were helped in the UK.

Our mandatory contributions in the UK included one-off payments of £140 to over 650,000 vulnerable customers as part of the Warm Home Discount scheme. Through the delivery of energy efficiency products via ECO, those most in need will also save an estimated £400 million on their energy bills. £11.6 million in mandatory contributions for customers and non-customers were additionally made to the independent charity, the British Gas Energy Trust. This assisted over 24,500 people with household debt advice and grants as well as funding debt advisers at organisations like Shelter, British Gas' strategic charity partner.

Through partnership with National Energy Action, we also developed targeted fuel poverty strategies for communities across the UK.

Overall, we spent more than £220 million supporting those most in need during 2015, mainly through mandatory government programmes in the UK.

1.9 million vulnerable customer households were helped in the UK.

(i) Based on Department of Energy & Climate Change quarterly statistics, September 2015.

Securing energy to fuel society

The world of energy is changing and we must adapt to it by sourcing and optimising energy supplies that satisfy the changing needs of our customers.

THE ISSUE AND OUR ROLE

Energy is an enabler of society's progress and global demand for it is expected to rise by nearly a third by 2040(i). With millions of people increasingly reliant on energy, we have an ongoing responsibility to source, generate and supply competitively priced energy for our customers.

We must evolve how we do this to create stronger energy propositions that meet the needs of our customers, the environment and makes us a more resilient business.

Gas remains an important part of our strategy because it is one of the most affordable energy sources for heating homes and running businesses, is the lowest carbon fossil fuel and backs-up intermittent renewable energy.

We continue to be a sizeable producer of gas and oil. We are, however, reducing the scale of our oil and gas E&P business to reflect the conclusions of our strategic review to rebalance the Group's investments in favour of our customer-facing activities.

We will continue to concentrate on serving our customers' energy needs by expanding trading capabilities while taking a leading role in creating a new model for generating and supplying energy through our new global DE&P business.

Together with our innovative products and services (see page 24), this approach will improve energy security by diversifying supply and reducing demand.

OUR PROGRESS

Evolving our energy supply

In 2015, we produced 78.6mmboe of gas and oil. We increased our focus on purchasing more competitive and diverse energy supplies on the global market. In 2016 and beyond, we will concentrate on significantly growing our presence in LNG which is forecast to account for a growing share of the world's energy mix.

The development of natural gas from shale could also strengthen energy security in the UK and throughout 2015, we continued to explore its potential through our 25% stake in the Bowland exploration licence operated by Cuadrilla Resources. Despite plans to mitigate possible adverse impacts on the local community such as noise and traffic, planning consent was refused in July. Our partners have since appealed the decision and we await the outcome in 2016.

Alternatives to fossil fuels are important as we transition to a lower carbon future. We hold a 20% stake in the UK's existing nuclear power fleet and while we have been pivotal in shaping the UK's wind industry through our role as an early developer, we have taken the decision to sell our 245MW wind farm capacity by the end of 2017.

Owning and operating wind farms no longer fit with our customer-focused strategy which is why we will instead continue to be an enabler of other operators' wind projects, committing to take electricity through a limited number of PPAs.

To reduce risks associated with increased energy trading, particularly in respect of LNG, PPAs and entry into new markets, we have sought to maintain rigorous controls in contracting to ensure future partners meet the legal standards we expect.

At the end of 2015, our overall commitment to secure gas and power for customers totalled over £50 billion.

We have taken the decision to sell our 245MW wind farm capacity.

Revolutionising energy supply

We have established a new global DE&P business and expect to invest £700 million over the next five years to revolutionise the traditional, centralised way of generating and supplying energy.

We will give large scale energy users such as businesses and hospitals, the ability to take control of their energy and use it more intelligently to reduce, generate and manage it themselves. DE&P will bring together flexible, local generation with storage and renewable technologies alongside energy efficiency measures and smart building management systems. All of these technologies will be managed from a smart energy control centre to help keep costs and carbon emissions as low as possible.

DE&P will also develop new propositions and technologies that reduce demand on the grid and reward customers with lower bills for shifting use away from peak times. Together with battery storage and smarter grids, this will help energy use become more efficient, reduce consumption and improve future energy security.

(i) International Energy Agency, 2015.

Reducing carbon emissions to combat climate change

Fossil fuels contribute to climate change so we are helping customers reduce their carbon footprint while driving down emissions across our business.

THE ISSUE AND OUR ROLE

Energy is essential to the lives of individuals, families and businesses but we recognise that fossil fuels are also the biggest contributor to climate change; one of society's greatest global challenges.

We fully support climate change targets set at a national and international level by helping customers cut carbon emissions from their energy consumption alongside those generated by our business.

With over 90% of our carbon emissions coming from customers, empowering them to reduce emissions is vital. We are well placed to do this through market-leading products and services that give customers greater choice and control over their energy.

OUR PROGRESS

Our commitment to disclose and effectively manage risks related to climate change were again recognised in 2015 by CDP, an international non-governmental organisation (NGO), who ranked Centrica as a leader in disclosure and awarded us a 'B' for performance[(i)]. This was down from an 'A' the previous year, due mainly to reduced low carbon nuclear and renewable generation.

Enabling customers to cut carbon

Our expected £1.2 billion investment over the next five years in Connected Home (see page 24) and DE&P (see page 25), can help our customers lower their emissions through greater insights and control over how they use and generate energy.

Cost-effective energy efficiency measures such as insulation, are also delivered as part of ECO. During 2015, we installed 149,000 measures through ECO which will generate lifetime savings of 2.8mtCO_2e.

Furthermore, we help customers reduce reliance on fossil fuels by investing in alternative energy sources. Solar energy is growing in North America and during 2015, Direct Energy installed solar panels in 2,164 homes and businesses, generating 28MWp. This was up from 19MWp the previous year, following the acquisition of residential solar capabilities in July 2014. In the UK, British Gas exited residential solar due to challenging market conditions and will now focus on large scale solar for businesses. Combined, installations rose from 7MWp to 34MWp across 697 UK homes and businesses.

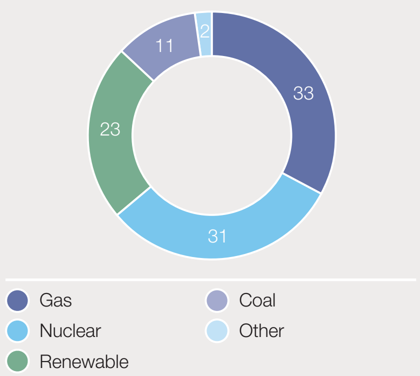
Balancing demand on the grid also reduces impact from fossil fuels because less energy needs to be generated to meet peak demand. In 2015, Direct Energy launched Reduce Your Use Rewards where customers save 5% on their bill by lowering usage during a peak event. In 2016, British Gas expects to roll-out its own Time-of-Use tariff to reduce consumption at peak hours.

In total, we calculate that we have helped our UK customers save over 22mtCO_2e since 2008, the majority of which was through mandated government schemes.

Reducing our own emissions

We now emit nearly 70% less carbon for every pound of revenue raised than in 2010, having gradually shifted away from being a large scale energy producer.

Our UK fuel mix of power sold %



In 2015, the carbon intensity of our power generation fell by 24% to 117gCO_2/kWh. This surpasses our target of 260gCO_2/kWh by 2020, largely due to reduced gas generation, stronger nuclear generation and divestments made in 2014. We have now revised our target to 200gCO_2/kWh by 2020, which better reflects our business.

The carbon intensity of all power sold to our UK customers during 2014/15, was one of the lowest among major UK energy suppliers at 240gCO_2/kWh; well below the UK average of 360gCO_2/kWh[(iii)].

Meanwhile, the internal carbon footprint of our core business was 79,096tCO_2e. This meant we exceeded our target to reduce emissions by 20% since 2007, achieving a total reduction of 27%.

Our carbon emissions

	2015	2014
Total carbon emissions	**4,393,016tCO_2e**	5,587,885tCO_2e[(ii)]
Scope 1	**4,272,477tCO_2e**	5,452,079tCO_2e[(ii)]
Scope 2	**120,539tCO_2e**	135,806tCO_2e[(ii)]
Total carbon intensity by revenue	**157tCO_2e/£m**	190tCO_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.

(i) Based on 2014 data.
(ii) Restated due to availability of improved data.
(iii) ElectricityInfo.org.

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 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.

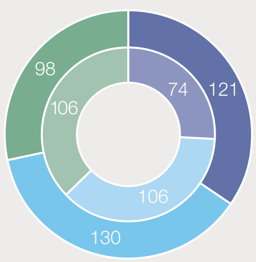
We actively engage in consultation with government on tax policy where we believe we are in a position as a Group to provide valuable commercial insight.

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).

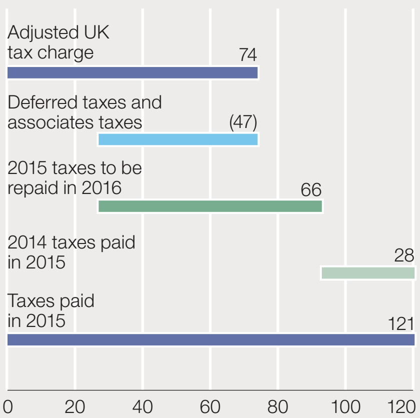
A more detailed explanation of the way the Group's tax liability is calculated and the timing of cash payments is provided on our website at centrica.com/responsibletax.

Tax charge v. cash tax by country 2015 £m



- UK tax charge
- UK cash tax paid
- Mainland Europe tax charge
- Mainland Europe cash tax paid
- North America tax charge
- North America cash tax paid

Breakdown of UK adjusted tax charge £m



Statutory tax rates on profits

Group activities	%
UK supply of energy and services	20
UK oil and gas production	50/75
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
Republic of Ireland supply of energy and services	12.5

As at December 2015.

FURTHER INFORMATION ON THE TAX CHARGE IS SET OUT IN NOTE 9.

Business Review

This review reports on our performance during 2015 under the business unit reporting structure in place at the time. In January 2016, we announced fundamental changes to the way that Centrica will be organised. Our new reporting segments, aligned to support the delivery of our strategy, are set out on page 13.

READ MORE ABOUT OUR BUSINESS UNIT KEY PERFORMANCE INDICATORS ON CENTRICA.COM/PERFORMANCE.

British Gas: Operating profit

£809m

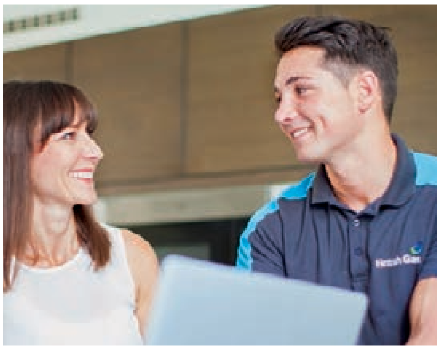
2014: £823m

British Gas: Residential energy accounts

14.7m

2014: 14.8m

British Gas



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

CUSTOMER SERVICE

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

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

CONNECTED HOME, INNOVATION AND SMART METERING

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

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

Smart meters will bring significant benefits to customers, including an end to estimated bills, greater ability to monitor and reduce consumption and simpler and faster switching between suppliers, helping to improve trust in the UK energy industry. We have now installed more than two million residential smart meters in the UK, significantly more than any of our competitors, as we scale the business to ensure we are fully mobilised for delivery of the mandated roll-out by 2020. We are currently trialling smart meters to our pre-payment customers, with around 50,000 customers participating in the trial and a full commercial launch is planned for the second half of 2016. Over 800,000 of our smart meter customers now regularly receive our unique smart energy report, 'my energy', which provides a comprehensive analysis of their energy consumption.

The report is helping to improve levels of customer satisfaction and the overall perception of British Gas, with a +21 NPS improvement for customers engaging with the report. We are also trialling 'my energy live' which allows customers to access many of the in-home display functions on their smart phone or tablet device.

BRITISH GAS RESIDENTIAL

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

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

BRITISH GAS SERVICES

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

Business Review
continued

Direct Energy: Operating profit

£328m

2014: £150m

Direct Energy: Residential energy accounts

3.0m

2014: 3.3m

British Gas continued

Reflecting this, in the second half of 2015 we launched new propositions, such as 'straight swaps', targeted at these customer segments.

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

BRITISH GAS BUSINESS

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

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

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

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

Direct Energy

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

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

DIRECT ENERGY BUSINESS

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

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

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

We continue to look for opportunities to enhance our offerings to our C&I customers. Through our relationship with SolarCity, we completed a number of commercial solar installations for customers across the US. In November, we completed the acquisition of Panoramic Power with whom we have had a successful partnership since 2014. The acquisition provides Centrica with leading capabilities in energy management technology and data science expertise, with around 25,000 sensors deployed across 700 sites in 30 countries, and enables us to offer enhanced and innovative propositions to customers which allow them to better understand their energy consumption. It will also help advance our Distributed Energy & Power offering in North America.

Bord Gáis Energy: Operating profit

£30m

2014: £7m

Bord Gáis Energy

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

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

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

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

DIRECT ENERGY RESIDENTIAL

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

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

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

Our Energy Supply & Services businesses in the UK and North America will share a common operating model and be supported by common operating functions.

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

DIRECT ENERGY SERVICES

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

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

Business Review
continued

Centrica Energy: Operating profit

£255m

2014: £648m*

* Restated – see page 1 for details.

Centrica Energy: UK power generated

19.3TWh

2014: 22.1TWh

Centrica Energy

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

GAS

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

We have clarified the role of E&P in the portfolio – to provide diversity of cash flows and balance sheet strength.

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

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

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

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

Our gas midstream business delivered a strong trading performance in the second half of the year, including recognising a £24 million gain following the settlement of a disputed long-term gas field contract. This more than offset a first half operating loss, following the optimisation of a number of flexible gas contracts for value during a period of falling prices in 2014, with a consequential impact on 2015. In LNG, the Federal Energy Regulatory Commission (FERC) issued authorisation in April 2015 to allow Sabine Pass Liquefaction LLC to construct and operate the fifth train expansion at their LNG facility in Louisiana. At the end of June 2015 the project received a Non-Free Trade Agreement licence from the Department of Energy (DOE), and with a positive final investment decision now having been made on the project Centrica expects to take delivery of its first cargo under its US export contract in late 2018 or in 2019. We continue to increase our capabilities and presence in global LNG and have completed a number of FOB cargoes, including our first delivery to South America, and have secured further cargoes scheduled for delivery in 2016.

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

POWER

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

Centrica Storage: Operating profit

£37m

2014: £29m

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

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

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

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

Centrica Storage

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

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

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

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

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

We do not see Storage as a growth option in the current environment.

Group Financial Review

Centrica has delivered a resilient financial performance, with solid 2015 adjusted earnings despite the challenge of falling wholesale oil and gas prices.

Group revenue
£28.0bn
2014: £29.4bn

Adjusted operating profit
£1,459m
2014: £1,657m (restated)

Adjusted effective tax rate
26%
2014: 30%

Adjusted earnings
£863m
2014: £903m (restated)

Adjusted basic EPS
17.2p
2014: 18.0p (restated)

Dividend per share
12.0p
2014: 13.5p

Adjusted operating cash flow
£2,253m
2014: £2,201m

Net debt
£4,747m
2014: £5,196m

Statutory loss
£(747)m
2014: £(1,012)m

Basic earnings per share
(14.9)p
2014: (20.2)p

GROUP REVENUE

Group revenue decreased by 5% to £28.0 billion (2014: £29.4 billion). British Gas gross revenue fell 4% to £12.4 billion, primarily as a result of lower average sales prices reflecting the lower price environment and a lower number of business energy supply points. Direct Energy gross revenue fell by 11%, also reflecting the impact of lower gas prices on energy unit tariffs, and the impact of the disposal of the Ontario home services business in October 2014. Bord Gáis Energy gross revenue increased by 87% reflecting 12 months of ownership in 2015 compared to six months in 2014. Centrica Energy gross revenue fell by 6%, primarily reflecting lower achieved prices in the current commodity environment, partially offset by increased midstream revenue. Centrica Storage gross revenue increased by 5% with the sale of cushion gas more than offsetting the impact of lower seasonal gas price spreads and reduced capacity at the Rough asset.

OPERATING PROFIT

All profit and earnings figures now include fair value depreciation related to our Strategic Investments in Venture and Nuclear, which was previously excluded from adjusted measures. Throughout the statement, reference is made to a number of different profit measures, which are shown on page 35.

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

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

Centrica Energy operating profit fell by 61%. Gas operating profit fell 73%, predominantly reflecting the impact of lower commodity prices. Power profitability increased by 40% with higher output from the nuclear fleet, the absence of net one-off negative impacts of £17 million on renewables in 2014 and a reduced loss on gas-fired assets due to a lower depreciation charge reflecting prior year impairments. Centrica Storage operating profit increased by 28%, predominantly reflecting additional revenue from the sale of cushion gas.

GROUP FINANCE CHARGE AND TAX

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

Operating profit

		2015			2014*		
Year ended 31 December	Notes	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Statutory result £m**	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit							
British Gas		**809**			823		
Direct Energy		**328**			150		
Bord Gáis Energy		**30**			7		
Centrica Energy		**255**			648		
Centrica Storage		**37**			29		
Total adjusted operating profit	4(c)	**1,459**			1,657		
Interest and taxation on joint ventures and associates	4(c)	**(61)**			(89)		
Group operating profit/(loss)	4(c)	**1,398**	**(2,255)**	**(857)**	1,568	(2,705)	(1,137)
Net finance cost	8	**(279)**	**–**	**(279)**	(266)	–	(266)
Taxation	9	**(286)**	**538**	**252**	(375)	773	398
Profit/(loss) for the year		**833**	**(1,717)**	**(884)**	927	(1,932)	(1,005)
Attributable to non-controlling interests		**30**			(24)		
Adjusted earnings		**863**			903		

Group finance charge and tax

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

* Restated – see page 1 for details.

Group Financial Review continued

Adjusted operating cash flow

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

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

GROUP EARNINGS AND DIVIDEND

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

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

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

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

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

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

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

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

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

ACQUISITIONS AND DISPOSALS

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

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

Further details on acquisitions, plus details of assets purchased, disposals and disposal groups are included in notes 4(f) and 12.

EXCEPTIONAL ITEMS

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

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

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

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

"Operating cash flow has been strong and with capital discipline this has allowed the Group to reduce net debt."

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating loss in the statutory results includes a net pre-tax gain of £103 million (2014: net loss of £1,108 million) relating to these re-measurements. The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 7 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

On 5 February 2016, Centrica and its joint venture partner announced the joint sale of the Glens of Foudland, Lynn and Inner Dowsing (GLID) wind farms. After repayment of debt associated with GLID and other costs, Centrica's net share of the sales proceeds will be approximately £115 million, which exceeds the carrying value of the disposed assets. It is anticipated that the transaction will be completed during March 2016.

Further details of events after the balance sheet are described in note 26.

RISKS AND CAPITAL MANAGEMENT

The Group's principal risks and uncertainties are set out on pages 38 to 42. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note S3. Details on the Group's capital management processes are provided under sources of finance in note 24(a).

ACCOUNTING POLICIES

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

Our Principal Risks and Uncertainties

A summary of our principal risks and uncertainties which may impact the delivery of our strategic priorities is shown below.

A summary of our principal risks and uncertainties (i)

	Strategic risks	Risk climate (ii)
1	**Strategy delivery**	Increased risk
2	**External market environment**	Increased risk
3	**Political and regulatory intervention**	No change in risk
4	**Brand, trust and perception**	No change in risk
5	**Business planning, forecasting and performance**	No change in risk
	Operational risks	Risk climate (ii)
6	**Customer service**	No change in risk
7	**People**	Increased risk
8	**Change management**	Increased risk
9	**Asset development, availability and performance**	No change in risk
10	**Sourcing and supplier management**	No change in risk
11	**Health, safety, environment and security**	No change in risk
12	**Information systems and security**	No change in risk
	Compliance risks	Risk climate (ii)
13	**Legal, regulatory and ethical standards compliance**	Decreased risk
	Financial risks	Risk climate (ii)
14	**Financial market**	Increased risk
15	**Credit and liquidity**	Increased risk
16	**Financial processing and reporting**	No change in risk

(i) This list is not exhaustive and items are not prioritised.
(ii) The risk rating is based on our current understanding of our risk environment, but may change over time as our business and the operating environment continue to evolve.

In 2015, we reviewed the design of our risk universe to ensure a more consistent and comprehensive approach to risk identification.

This provides an overarching framework, which includes processes for identifying, achieving and managing principal risks to the achievement of our strategic priorities. These processes are reinforced through regular performance management and are subject to internal and external review.

Principal risks and uncertainties

Description	Potential impact	Controls and mitigating activities
1 Strategy delivery Failure to deliver Centrica strategy.	The Group is being reorganised to achieve the strategic objectives announced in 2015. The delivery of this strategy creates additional uncertainties, including in relation to growth of new businesses, the achievement of disposals and the realisation of substantial cost efficiencies.	• Delivery of the strategy is the primary objective of the Board and Executive who are directly engaged in regular progress reviews. • The Board approves the Group annual plan setting the strategic direction. • We have a clear financial framework to ensure capital is allocated in line with strategy and towards projects best able to deliver expected business benefits. • Where necessary, experienced leaders have been identified and appointed to ensure the delivery of the critical strategic goals. • Strategic definition is provided through clear delegated targets embedded in business plans.
2 External market environment Changes and events in the external market or environment that could impact delivery of Centrica's strategy.	Customer behaviour, downstream competitive positions and upstream operational results are impacted by: improved energy efficiency, competitor activity, climate change, commodity price movement, long-term weather patterns and the general economic outlook.	• Regular analysis undertaken on commodity price fundamentals and their potential impact on business plans and expectations. • Strategic discussions focused in 2015 on a broad range of external scenarios and sensitivities to underpin the viability of the strategic review. • Clarity provided during 2015 on the strategic desire for an integrated business operating across the value chain, providing a balanced risk portfolio. • Investments in businesses such as Connected Home in response to changing external trends and requirements. • We support climate change targets set at a national and international level by driving down carbon emissions across our business as well as giving customers greater control over their energy through innovative and energy efficient products and services.
3 Political and regulatory intervention Changes, intervention or a failure to influence change to the political or regulatory landscape.	We are subject to oversight by a range of political and regulatory bodies. UK regulators continue to impose significant obligations to implement carbon reduction measures and energy affordability. We await the final outcome of the CMA investigation into the energy markets in the UK and the implications for our businesses.	• Constructive and regular engagement with regulatory bodies such as the CMA, with a clear commitment to an open, transparent and competitive UK energy market that provides choice for consumers. • The Safety, Health, Environment, Security and Ethics Committee (SHESEC) has oversight of regulatory risk, in addition to the discussions within the Board. • Work with regulators to find a better approach to intervention that agrees clear targets against which we can demonstrate progress. • Consistent engagement with political parties to bring about agreement on critical areas in energy policy.
4 Brand, trust and perception Competitive positioning and protection of the Centrica and subsidiary brands.	Our customers are critical to our business and are at the heart of our strategy. To grow and evolve our business we must protect and develop our brand, building trust across a wide range of stakeholders.	• NPS and other customer service and brand metrics regularly reviewed by Executive Committee and the Board. • Focus on providing affordable energy and excellent service through a fair and simplified transparent offering. • Seek to protect the most vulnerable households through financial advice and aid. • Engage with stakeholders to understand their views and identify solutions to help reduce bills and improve transparency.

READ MORE IN OUR CORPORATE GOVERNANCE REPORT ON PAGE 55.

Our Principal Risks and Uncertainties continued

Principal risks and uncertainties

Description	Potential impact	Controls and mitigating activities
5 Business planning, forecasting and performance Business planning, forecasting, risk management and achievement of anticipated benefits.	We prioritise how we use our resources based on our business plans and forecasts. Failure to accurately plan and forecast could result in suboptimal decisions and may impact expected benefits.	• Planning processes revised to underpin the strategic objectives for 2016 and beyond, as well as to support the shape of the future operating model. • Board and Executive Committee directly engaged in constructive challenge of the planning, forecasting and risk management processes. • Direct interaction between the strategy, fundamentals, planning and finance teams in arriving at forecasts and plans. • Performance review process designed to provide challenge and a forum for discussion of critical uncertainties in the business planning processes.
6 Customer service Failure to provide good quality customer service.	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. We must remain at the forefront of technological development to provide choice and efficiency.	• Providing the optimal service to our customers is discussed regularly at both Board and Executive Committee meetings. • Where we are known to have experienced issues, such as the service to our British Gas Business customers, we have ensured a full and focused response. • Commitment to continually strengthen our controls for customer service and complaints management. • Increased investment in Connected Home to give customers greater visibility, control and engagement over their energy usage.
7 People Attraction, retention, and succession of the right people with the right skills in the right role at the right time.	The change in our business model means attracting and retaining the right skills to meet evolving priorities is critical. Similarly, maintaining industrial relations across our businesses becomes more challenging, given our announced level of job losses. Insufficient capability and capacity in senior management and key skills will limit our ability to grow and execute our strategy at the speed required.	• People Committee established at the executive level to provide focus on the key talent challenges. • Board level consideration of values, culture and succession matters. • Clearly defined people strategy, based on organisational capability and requirements, culture and engagement, equality and wellbeing, talent development, training and reward and recognition. • Active engagement 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. • Annual employee engagement survey to identify what we are doing well and where we need to improve.
8 Change management Execution of change programmes and business restructuring.	The scale of change planned in our business is significant. Any substantial delay or challenge experienced with the organisational restructuring, system implementation or growth of new businesses could adversely affect stakeholder expectations. At the same time we must maintain our systems of internal control throughout the change.	• Monthly Executive Committee review of the strategy implementation and required change programmes, allow for the open discussion of emerging risks and control requirements. • Progress and issues reported to and discussed by the Board. • Appointment of a senior executive in 2015 to lead the transformation programme bringing focused attention on benefits realisation, risk prioritisation and milestone tracking. • Focused on our people throughout the change, recognising the need for appropriate capability to be built across the organisation. • Established forums for sharing of good practice as we seek to standardise and simplify the business model.

Principal risks and uncertainties

Description	Potential impact	Controls and mitigating activities
9 Asset development, availability and performance Investment, development and integrity of operated and non-operated assets.	Failure to invest in the maintenance and development of our assets could result in underperformance, assets being out of service or significant safety issues. The Company must have confidence in its operational integrity and ability to perform and deliver in line with objectives.	• The Board takes a direct interest in the oversight of our significant assets and in ensuring we have the highest operational standards. • Group-wide minimum standards applied to all assets, whether operated or non-operated, in order to have confidence in their integrity. • Clarity on future direction of E&P assets provided through the strategic review underpinning our continued commitment to this sector. • Capital allocation and investment decisions governed through the Investment Committee chaired by the Chief Executive.
10 Sourcing and supplier management Dependency on and management of third parties to deliver the products and services for which they have been contracted to the agreed time, cost and quality.	Across our business operations we rely on services provided by third parties. These include outsourced activities and third party infrastructure as well as operating responsibility in some assets. As with any contractual relationship there are no guarantees that suppliers will always comply with legal, regulatory or corporate responsibility requirements.	• Board level oversight is provided through the SHESEC, with the executive level Ethics & Compliance Committee also focused on this area. • All suppliers are required to sign up to our 'Responsible 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. • Corporate responsibility processes in place for procurement of all goods and services.
11 Health, safety, environment and security (HSES) HSES hazards and regulations associated with Centrica's operations.	Our operations have the potential to result in personal, environmental or operational harm. 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 is considered to be of upmost significance to the Group and receives Board level oversight through the dedicated SHESEC. • Specific HSES executive level committee also established, chaired by the Chief Executive on a monthly basis. • Strengthening of the second line of defence assurance capability, to provide independent assessments of the controls and processes in place to manage these risks, to ensure they remain effective and continue to develop. • Investment in capability development and awareness activities to ensure we maintain safe operating practices in all our businesses. • Regular evaluation of security intelligence, operating procedures, crisis management and business continuity plans, to provide assurance of our capability to respond rapidly and appropriately to any incident.
12 Information systems and security Effectiveness, availability, integrity and security of IT systems and data essential for Centrica's operations.	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.	• Information systems and cyber security received substantial Board level focus during 2015 and remain a continued focus for the SHESEC. • Detection and investigation of threats and incidents were prioritised, through further investment in 2015 and by engaging with key technology partners and suppliers. • Increased focus on employee awareness and training in relation to sensitive data and digital information. • Policies over new technology development reviewed and tested regularly. • Collaborative working with other parties across the energy industry and within the wider public and private sectors to share threat information. • Evaluation and testing of cyber security crisis management and wider business continuity plans.

Our Principal Risks and Uncertainties continued

Principal risks and uncertainties		
Description	Potential impact	Controls and mitigating activities
13 Legal, regulatory and ethical standards compliance Compliance with legal, regulatory and ethical requirements.	Our operations are the subject of intense regulatory focus and we seek to deliver the highest standards in compliance and ethical conduct. We recognise any real or perceived failure to follow our global Business Principles or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could also result in fines and other penalties.	• SHESEC established in 2015 to provide Board level oversight of this risk, alongside the executive level Ethics & Compliance Committee. The Disclosure Committee will review all external regulatory announcements. • The Chairman is directly responsible for promoting high ethical standards and best practice in corporate governance and ensures the effective contribution of all Directors. • Experienced Group Ethics and Compliance Officer appointed in 2016 to bring additional strength and focus. • Group Business Principles govern how we conduct our affairs. Managers are required to declare that they will uphold these principles on an annual basis to ensure that we remain a responsible and fully compliant business. • Speak Up process in place to enable employees to raise and report any concerns.
14 Financial market Exposure to market movements, including commodity prices and volumes, inflation, interest rates and currency fluctuations.	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.	• Audit Committee reviews, assesses and challenges the effectiveness of the governance and control mechanisms within EM&T. • Group Financial Risk Management Committee meets monthly to review Group financial exposures and assess compliance with risk limits. • Governance and controls exist to manage liquidity and funding exposures. • Active hedging programmes in place to mitigate exposure to commodity and financial market volatility.
15 Credit and liquidity Management of counterparty exposures and funding uncertainties.	The seasonal nature of our business, contractual obligations, pension and decommissioning funding and margin cash arrangements associated with certain wholesale commodity contracts, have a significant impact on our liquidity. Certain events and activities may have a direct impact on our credit, ratings and liquidity, which could increase the cost of, and access to, financing.	• Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise. • A regular assessment of available resources is made including that required to support the viability and going concern assumptions within this report. • Counterparty exposures are restricted by setting credit limits for each counterparty, where possible by reference to published credit ratings. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy.
16 Financial processing and reporting Accuracy and completeness of internal and external financial information.	We must be able to maintain robust financial systems and produce accurate financial statements that adequately disclose all applicable accounting policies. This obligation includes maintaining processes to avoid misstatement through fraud or error. The confidence of our investor and regulatory stakeholders is reliant on the continued integrity of our financial public reporting.	• Audit Committee maintains close oversight of the financial policies and procedures within clearly defined guidelines. • Processes in place provide assurance over the completeness and accuracy of our public financial reporting, with monitoring and internal audit activity designed to identify any misstatements or errors. • We maintain an effective working relationship with our external auditors and value their insight and recommendations.

Corporate Governance

During the year the Board conducted a comprehensive review of the Board and Committees' governance framework against the Group's identified principal risks.

Board of Directors

Full biographies can be found at centrica.com

N

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 non-executive director.

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

D

IAIN CONN
Chief Executive

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

Skills and experience
Iain has a wealth of experience heading customer-facing businesses and brands. He possesses a deep understanding of the energy sector built up over a lifetime in the industry with a commitment to customers and safety. Iain was previously chief executive, downstream, BP's refining and marketing division from 2007 to 2014. Iain was a board member of BP for 10 years from 2004 and has previously held a number of senior roles throughout BP.

External appointments
Non-executive director of BT Group plc.

D

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.

A N R S

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 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.

MARK HANAFIN
Group Executive Director and Chief Executive, Energy Production, Trading and Distributed Energy

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.

MARK HODGES
Group Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland

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.

A N R

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 SABMiller plc, trustee of the Grosvenor Estate and chairman of Grosvenor Group Limited, Chairman of Design Dundee Limited and a trustee of The National Life Story Collection and National Galleries Scotland.

- A Audit Committee
- D Disclosure Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety, Health, Environment, Security and Ethics Committee
- ● Denotes Committee Chairman

N R S

MIKE LINN
Non-Executive Director

Mike joined the Board on 1 June 2013 and is Chairman of the SHESEC.

Skills and experience
Mike has considerable experience in the energy sector, particularly exploration and production and the US market. He founded and was previously chairman, chief executive officer and president of LINN Energy, LLC.

External appointments
Non-executive director of LINN Energy, LLC, non-executive board member of Nabors Industries, Blackstone Minerals Company, LP and Western Refining Logistics and senior advisor to Quantum Energy Partners. Member of the National Petroleum Council and inducted into the All American Wildcatters.

A N R

IAN MEAKINS
Senior Independent Director

Ian joined the Board on 1 October 2010 and is Senior Independent Director.

Skills and experience
Ian has broad general management and board experience and considerable knowledge of managing businesses with strong brands. Ian is currently chief executive officer of Wolseley plc and was, until April 2009, chief executive of Travelex Holdings Ltd. He was chief executive officer of Alliance UniChem plc until its merger with Boots in July 2006 and between 2000 and 2004 he was president, european major markets and global supply for Diageo plc.

External appointments
Group chief executive officer of Wolseley plc. It has been announced that Ian is expected to retire from Wolseley plc on 31 August 2016.

N R S

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 of IHS Inc.

A N S

STEVE PUSEY
Non-Executive Director

Steve joined the Board on 1 April 2015.

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. and ARM Holdings plc.

Senior Executives

Full biographies can be found at centrica.com

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.

D

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.

BADAR KHAN
Chief Executive, Energy Supply & Services, North America

Badar was appointed President and CEO, Direct Energy on 1 April 2013.

Skills and experience

Badar has extensive expertise in both upstream and customer-facing energy businesses. Prior to his appointment as President and CEO, Direct Energy, he was President, Upstream and Trading of Direct Energy. Prior to joining Centrica in 2003, he was a senior officer of a private retail energy company in the US and a management consultant with Deloitte.

JILL SHEDDEN
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 for Centrica Energy and was previously HR Director for British Gas Business and HR Director for British Gas Energy.

Directors' and Corporate Governance Report

We took the opportunity to review our governance structure. By aligning it with our identified principal risks, we enhanced the Board's governance and oversight.

Dear Shareholder

Board governance

As Chairman of the Board, I am pleased to present the Directors' and Corporate Governance Report which sets out how we promote good corporate governance principles, the work of the Centrica Board and its Committees and our approach to risk management and internal control. Taken together, these define our approach, which underpins our firm commitment to ensuring that Centrica operates to the highest standards of corporate governance.

The Group relies on a robust governance framework to support the organisation (see page 53) and responsibility for its delivery lies with the Board. The Board is accountable to shareholders and remains committed to developing good shareholder engagement in accordance with the principles of the UK Corporate Governance Code (the Code). We detail how we comply with the Code on page 48.

We took the opportunity in 2015 to review our governance structure and, by aligning it with our identified principal risks, we enhanced the Board's governance and oversight. One output of this exercise was the establishment of a new Board Committee, the Safety, Health, Environment, Security and Ethics Committee (SHESEC).

This report is intended to provide shareholders with a good understanding of how the Group is managed, how the Board and its Committees are organised and how these contribute to a robust framework of governance. The importance of our governance framework in ensuring the continuing success of Centrica and the delivery of long-term sustainable value creation for all of Centrica's stakeholders is recognised. I firmly believe that good corporate governance is an important enabler to the success and reputation of the Group and provides the framework for the way in which we conduct our business and deliver our strategic objectives.

Appointments and succession

As I highlighted in my Chairman's Statement, during the year we have seen a number of Board changes notably welcoming Iain Conn on to the Board as Chief Executive and Carlos Pascual and Steve Pusey were appointed as Non-Executive Directors. We also appointed Ian Meakins as our Senior Independent Director. During the year, Jeff Bell, our Interim Group Chief Financial Officer, was confirmed in post and Mark Hodges was appointed as an Executive Director. Both Jeff and Mark have been appointed to the Executive Committee and bring with them a wealth of experience reflecting their respective careers to date.

I look forward to working with my fellow Directors in driving excellence in governance both in the boardroom and throughout the Group.

Rick Haythornthwaite, Chairman

"Good corporate governance is an important enabler to the success and reputation of the Group and provides the framework for the way in which we conduct our business and deliver our strategic objectives."

Board evaluation

The Board considers that its own continuing effectiveness is vital to the Group delivering its strategic objectives. Towards the end of the year, the Board conducted its annual evaluation of its own performance against a number of changes on the Board which I have already outlined. In accordance with the requirements of the Code, we undertook an internally facilitated assessment and the findings provided a clear agenda for Board development. More detail can be found on page 50. We expect to hold an external review of the effectiveness of the Board and its Committees next year.

The Directors' and Corporate Governance Report that follows has been prepared in order to provide shareholders with a comprehensive understanding of Centrica's governance framework and to meet the requirements of the Code, the Listing Rules and the Disclosure and Transparency Rules. I trust you will find it informative.

Rick Haythornthwaite
Chairman
18 February 2016

Directors' and Corporate Governance Report continued

BOARD CONSTITUTION

Governance profile

Chairman and Chief Executive
The roles of the Chairman and Chief Executive are split and are set out in their respective job descriptions.

Independence
Almost two-thirds of our Board is made up of independent Non-Executive Directors, including the Chairman.

Compliance
The Company complied with the UK Corporate Governance Code in 2015.

Senior Independent Director
Ian Meakins is our Senior Independent Director.

Financial experience
The chair of the Audit Committee is deemed to have recent, relevant financial experience.

centrica.com
For further information on our Board and our corporate governance framework, please refer to our website.

CORPORATE GOVERNANCE

We are required to measure ourselves for the year under review against the standards of the Code. A copy of the Code is available at frc.org.uk. This report sets out how the Company applied the principles of the Code and the extent to which the Company complied with the Code in the year to 31 December 2015. The Board confirms that up to the date of this report, the Company has continued to comply with the provisions of the Code.

A summary of our governance profile, highlighting our compliance with key areas of the Code, is set out above.

THE BOARD

The Board believes that good corporate governance is central to contributing to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of shareholders, employees and customers. The powers of the Directors are set out in the Company's Articles of Association (Articles), which are available on the Company's website. The Articles may be amended by special resolution. In addition, the Directors have responsibilities and duties under legislation, in particular the Companies Act 2006 (the Act).

The Board has a schedule of matters specifically reserved for its approval which is reviewed annually to ensure best practice. A summary is shown below and the full schedule is available on our website. The Board also delegates other matters to Board Committees and management as appropriate.

The Board is responsible for:

- the development of strategy and major policies;
- the Groups's customers and our services to them;
- the Group's corporate governance and systems of risk management and internal control;
- reviewing performance;
- approving interim dividend payments and recommending final dividend payments;
- approving the annual operating plan, Financial Statements and major acquisitions and disposals;
- the Group's corporate responsibility arrangements including customer services, health, safety and environmental matters; and
- the appointment and removal of Directors and the Company Secretary.

As part of its responsibilities, the Board approves and monitors the development of the Group's strategy. During 2015, the Board undertook a strategic review of the Group's businesses and portfolio. This led to an announcement on 30 July 2015 outlining a revised business model and strategic priorities.

Key strategic considerations of the review included:

- the outlook and sources of growth for global gas markets, and the UK and US energy markets;
- a review of the portfolio mix and capital intensity and the recommended portfolio direction based on identified growth options;
- optimising operating capability and efficiency in support of the revised strategy; and
- the Group's financial framework.

For more information on the outcome of the strategic review see page 12.

BOARD LEADERSHIP

Board meetings

The Board holds regular scheduled meetings throughout the year. In 2015, the Board met 10 times. Further information on topics considered by the Board in 2015 are detailed on page 53.

Board Directors

We have sought to ensure we have a balanced Board where individual merit and relevance are the key entry requirements but collectively we have an appropriate mix of diversity and skills to ensure constructive debate and thoughtful decision making. In addition, we believe it is important 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.

A balance of Executive Directors and independent Non-Executive Directors on our Board promotes thorough debate and consideration of the important issues facing Centrica and the Group's performance. At present, there are a total of 11 Directors, of whom four are Executive and six are Non-Executive, in addition to our Chairman. This represents more than half the Board, which satisfies the requirements of the Code.

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, all of our Non-Executive Directors have assured the Board that they remain committed to their respective roles and, having considered these assurances, 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 and Ethics Committees.

During the year the Non-Executive Directors, including the Chairman, met independently of management. In addition, the Senior Independent Director met with the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

The Directors have full access to the advice and services of the Group General Counsel & Company Secretary, who is responsible for advising the Board through the Chairman on corporate governance matters. They are also able to seek independent professional advice at the Company's expense in respect of their duties.

The Board has agreed that each Director shall stand for reappointment at each AGM.

Details of the Directors of the Company are set out with their biographies on pages 44 and 45. Information on remuneration and share interests are set out in the Remuneration Report on pages 63 to 79. Details relating to Directors' service contracts or letters of appointment, in the case of Non-Executive Directors, are set out in the remuneration policy that was approved by shareholders on 27 April 2015. The full remuneration policy can be found on our website.

Copies of Directors' service contracts and letters of appointment for the Non-Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

In line with best practice, the roles of our Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board. A summary of these and other roles is shown in the table below.

Board composition and roles

Chairman	Rick Haythornthwaite	Responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards, ensuring the effective contribution of all Directors and, with support from the Group General Counsel & Company Secretary, best practice in corporate governance.
Chief Executive	Iain Conn	Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.
Group Chief Financial Officer	Jeff Bell	Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function.
Independent Non-Executive Directors	Margherita Della Valle, Lesley Knox, Mike Linn, Carlos Pascual, Steve Pusey	Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure.
Senior Independent Director	Ian Meakins	Acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors, as well as shareholders, as required.
Group Executive Directors	Mark Hanafin, Mark Hodges	Responsible for executive leadership and day-to-day management of relevant business units in support of the Chief Executive and the delivery of the strategy agreed by the Board.

Recruitment

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of each new Director to the Board, which is led by the Chairman. The recruitment process conducted for the appointment of Carlos Pascual and Steve Pusey was in line with this approach.

The Committee appointed several executive search agents to assist in the search for both Executive and Non-Executive Directors. The agents engaged included Russell Reynolds Associates, The Zygos Partnership, JCA Group and Spencer Stuart.

The Committee considered the candidates against the objective criteria set out in the profile, having due regard for the benefits of Board diversity.

None of the executive search agents listed above provide any other services to the Company.

Appointments

During the year under review, there were a number of changes to the Board. As announced in December 2014, Ian Meakins succeeded Mary Francis to become the Company's Senior Independent Director with effect from 1 January 2015.

Iain Conn was appointed as a Director of the Company and became Chief Executive on 1 January 2015. In addition, Carlos Pascual and Steve Pusey were appointed as Directors of the Company with effect from 1 January 2015 and 1 April 2015 respectively. Jeff Bell, our Interim Group Chief Financial Officer, was confirmed in post on 1 August 2015 and Mark Hodges was appointed as a Director with effect from 1 June 2015.

Recruitment process

Stage 01	Stage 02	Stage 03	Stage 04	Stage 05
Identify Board appointment requirement	Appoint executive search agents. Shortlist candidates	Nominations sub-committee conducts interviews	Recommendation to the Board by the Nominations Committee	Formal Board approval

Directors' and Corporate Governance Report continued

Board evaluation

Our policy over many years has been to conduct a thorough review of Board process, practice and culture on an annual basis with the input of an external facilitator at least once every three years. The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate governance. On each occasion, the Board has received positive reports and has adopted recommendations to improve Board, Committee and individual Director performance.

Recognising that it could take some time for the new Board to 'settle', we undertook an internal Board review in 2015, which is set out in the diagram below:

Internal Board review

Stage 01

November 2015
The completion of Board questionnaires on governance, management and best practice benchmarks; our progress against our improvement agenda; and reflections and insights in response to the Board's evolving context and composition.

Stage 02

January 2016
Interviews between the Chairman and each Director to explore thematic areas and specific points raised in the survey, as well as to peer review individual Director performance.

Stage 03

February 2016
Consideration by the Board of the final report on the results of the survey.

Stage 04

March 2016
Feedback meetings on the peer review results.

A complementary exercise was conducted in parallel with the Board review process, to develop and articulate a Board Charter to redefine our role and purpose; the skills, values and culture necessary to deliver that role and purpose; our journey to enhance our effectiveness; and the key areas of focus for 2016. We intend to use the Board Charter to contribute to the development of our Board and serve as a framework for our 2016 Board evaluation exercise.

Each Committee chair led their own separate internal Committee review for 2015, the results of which, including progress against the findings of the 2014 external evaluations, were considered at their respective meetings in February 2016.

The Chairman's evaluation was conducted by Ian Meakins, the Senior Independent Director, and reported to the Board in February 2016.

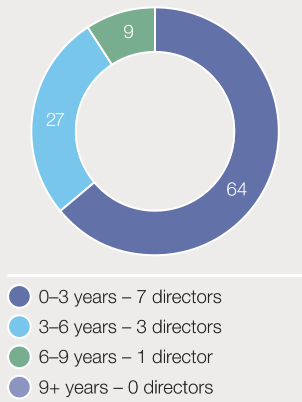
Balance and independence of the Board

As part of the evaluation process, the Board considers the balance of skills, knowledge, experience and independence to ensure the Board and Committees effectively discharge their duties and responsibilities. As part of its annual review of corporate governance, the Board considered the independence of each Non-Executive Director, other than the Chairman, against the criteria in the Code and determined that each Non-Executive Director remained independent. It is important that the Directors have a varied range of skills and experience to ensure they can exercise their independent judgement on issues of strategy, performance and resources.

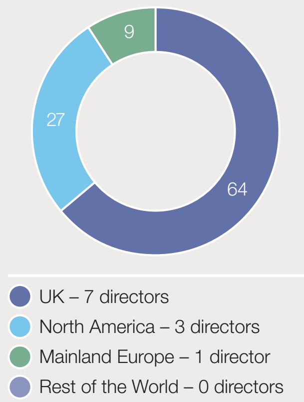
Board diversity

Centrica is committed to the merits of diversity in all its forms at Board level and throughout the Group. As at 31 December 2015, 18% (two Directors) of the Board were women, this was driven by Board changes that took place at the end of 2014 reducing this from 33% (three Directors) at the same point in 2014. Centrica is committed to maintaining its current level of women on the Board and would increase the percentage if the skills, experience and knowledge of the individual were appropriate and in keeping with the needs of the business.

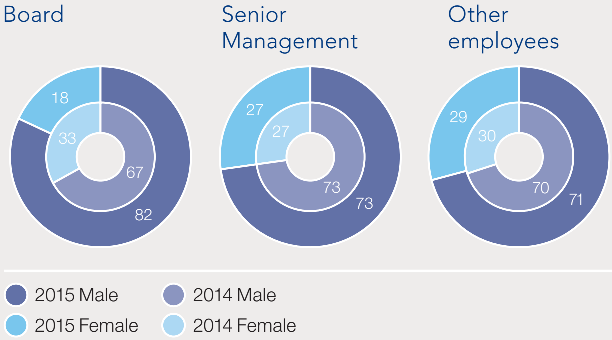
Tenure %



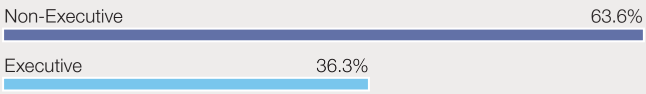
Nationality %



Breakdown by gender (%)



Balance of Non-Executive and Executive Directors



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, promotion and career development. By delivering on our commitment to diversity and inclusion (D&I) 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, 27% are women, whilst 29% of employees, excluding the Board and senior management, are women as indicated in the charts on the previous page. Our senior management level includes categories of employees as defined in the Act. During the year, Centrica was recognised for our commitment to D&I by a number of awards for our policies promoting and supporting carers, older workers and family-friendly practices.

Centrica has various programmes taking place relating to diversity in all its forms. These include coaching and mentoring and our participation in the 30% Club's cross-company, cross-sector mentoring scheme for mid-career women who will benefit from mentoring at the current stage of their career. In partnership with Mars and Vodafone, we launched HitReturn, a new UK programme in the Thames Valley area for senior professionals who have taken a career break as either a parent or a carer. The 12-week paid 'return-ship' offers the opportunity to work on professional assignments and get expert coaching from people who have also returned to work after some time out. Centrica is working with the Women's Business Council which makes recommendations to UK government and businesses on how women's contribution to growth can be optimised.

The power of our employee networks, which include the Women's Network, Carers Network, Parents Network and Lesbian, Gay, Bi-Sexual & Transgender Network, drives us to become a truly diverse organisation, giving us that sense of energy that comes from having a broader group of people contributing to ideas and issues across our organisation. Via our annual employee survey, we have established a D&I index that sets a baseline for our organisation that over time we will be able to measure ourselves against.

We fully support the Government's intention to introduce measures in the future to require companies to report on the gender pay gap, as we believe that transparent reporting drives positive intervention within organisations.

BOARD EFFECTIVENESS

Directors' attendance

All Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board and Committee meetings during 2015 are set out in the table below. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. In addition, any Director who is unable to attend a meeting will, as a matter of course, receive the minutes of that meeting for their reference.

Board and Committee meetings and attendance during the year (i)

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Safety, Health, Environment, Security and Ethics Committee (SHESEC) (ii)
Rick Haythornthwaite	10/10	N/A	5/5	4/4	N/A
Iain Conn	10/10	N/A	N/A	N/A	N/A
Jeff Bell	3/3	N/A	N/A	N/A	N/A
Margherita Della Valle	10/10	4/4	5/5	6/6	2/2
Mark Hanafin	10/10	N/A	N/A	N/A	N/A
Mark Hodges	6/6	N/A	N/A	N/A	N/A
Lesley Knox	9/10	4/4	5/5	6/6	N/A
Mike Linn	8/10	2/3	4/5	4/6	2/2
Ian Meakins	9/10	4/4	4/5	5/6	N/A
Carlos Pascual	10/10	3/3	5/5	6/6	2/2
Steve Pusey	6/7	2/3	2/3	N/A	2/2

(i) Following the review of the Board and Committee governance, membership of the Committees was revised.
(ii) SHESEC was established on 28 July 2015.

Directors' and Corporate Governance Report continued

Induction

All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs. The Chairman and Group General Counsel & Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors.

The Group General Counsel & Company Secretary oversees the schedule of briefings and meetings that would be most beneficial to ensure an effective induction following each appointment. As a result, tailored induction programmes were designed for Iain Conn, Mark Hodges, Carlos Pascual and Steve Pusey. These included briefings from members of the Executive team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business, site visits and a briefing in respect of the corporate governance framework within Centrica.

Case studies of Director inductions

	Executive	Non-Executive
	**Mark Hodges, Group Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland** "An invaluable part of my induction programme has been meeting passionate individuals on site visits who are committed to delivering for our customers."	**Carlos Pascual, Non-Executive Director** "My induction programme has been detailed and engaging, providing me with the opportunity to meet with staff on the ground and gain a deeper understanding of the Group's operations as well as visiting a number of sites."
Experience and strengths	• Strong understanding of the UK consumer market • Expertise in driving significant improvements in customer service • A solid track record of improving business performance • Experience of working in a regulated environment	• Senior leader in energy geopolitics • Non-resident senior fellow, Center on Global Energy Policy, Columbia University
Focus areas	• Meet senior management across the Group • Learn more about British Gas	• Learn more about Centrica and our businesses • Understand the UK corporate governance environment • Meet senior management across the Group
Overview of induction programme	• Health and safety responsibilities training • Meetings with British Gas Leadership Team • Accompanied a British Gas service engineer on home visits around Norwich • Site visits to British Gas offices in Cardiff, Leicester and Oxford • Met shareholders and advisers at the 2015 AGM • Site visit to Connected Home, London • Meeting with a selection of journalists	• Health and safety responsibilities training • Met with the Group General Counsel & Company Secretary on UK corporate governance • Accompanied a Direct Energy technician on home visits around Houston • Meetings with senior management including the Chief Executive, Head of Internal Audit, Risk & Controls and Group Director, HSES • Site visits to solar installation, Colonia, New Jersey and to a significant client of Direct Energy Business • Met shareholders and advisers at the 2015 AGM

Board programme

During the year, Directors considered regular updates and presentations as part of the Board programme on changes and developments to the business and to the legislative and regulatory environments in which the Group operates. In particular, the Board was briefed on the following key issues during 2015:

- The Group Strategic Review
- Direct Energy Strategic Review
- Developments in the Competition and Markets Authority's investigation into the energy market
- Investor feedback
- Customers and the provision of Energy and Services to them
- British Gas smart metering roll-out
- Update on health, safety, environment and security
- Information security with a particular focus on cyber risk
- Review of the Board governance structure
- Company law, corporate governance, reporting and remuneration reporting developments

Ongoing training and development

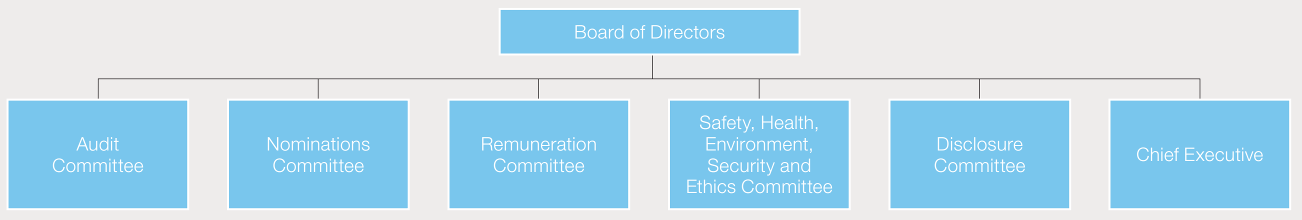
Ongoing training and development is also provided to all Directors, as agreed with the Chairman and supported by the executive management.

Conflicts of interest

The Act and the Articles require the Board to consider any potential conflicts of interest. The Board considers and, if appropriate, authorises each Director's reported actual and potential conflicts of interest regularly. The conflicts of interest register is reviewed at least annually by the Board. Each Director abstains from approving their own reported potential conflicts. The Board operates a policy to identify and, where appropriate, manage potential conflicts of interest for Directors. The Board monitors the status of each conflict and has put in place a protocol that a Director shall abstain from involvement in any decision process relating to their specific conflict.

BOARD GOVERNANCE

Board governance structure



Review of the Board and Committee governance structure

During the year, the Board conducted a comprehensive review of the Board and Committees' governance framework against the Group's identified principal risks. These risks are discussed in our Principle Risks and Uncertainties on page 38. The review concluded that these principal risks would primarily be the responsibility of the Board, Audit Committee and, a new committee, the Safety, Health, Environment, Security and Ethics Committee (SHESEC). Oversight of the systems of internal controls and risk structure of the Group would remain with the Audit Committee. As part of this review, the Group's Corporate Responsibility Committee ceased and its duties addressed either by the Board itself, particularly in respect of customers, or by the SHESEC.

As a result, the membership of each of the Committees was reviewed and the Matters Reserved for the Board and the terms of reference of each Committee were revised accordingly and are available on our website.

The independent Non-Executive Directors are members of the Audit, Nominations, Remuneration and SHESEC Committees. The Committees are supported in the same way as the Board in order to ensure information flows in a timely, accurate and complete manner.

Minutes of Committee meetings are made available to all Directors and the Chairman of each Committee provides regular updates to the Board.

The responsibilities of each Board Committee, its membership and the key issues considered by each one during 2015 are set out in the Committee reports beginning on page 54.

Delegated authority

As part of the review into the Board Committee's governance structure, revisions were made to the delegations of authority given to the Chief Executive, which he in turn is able to further sub-delegate to his executive team. The Chief Executive is required to establish an executive governance structure including an Executive Committee that has responsibility for strategy portfolio and planning, performance management of the Group as a whole, people and capability, communications and alignment and risk management.

Directors' and Corporate Governance Report continued

AUDIT COMMITTEE
Members
- Margherita Della Valle (Chairman)
- Lesley Knox
- Ian Meakins
- Steve Pusey


Margherita Della Valle, Committee Chairman

This report aims to provide you with insight into the workings and activities of the Committee during 2015, outlining how the Committee discharges its duty in providing oversight of financial reporting and related controls, the types of issues considered during the year and the key judgements reached.

Following the establishment of the SHESEC, the Committee's terms of reference and its interaction with the SHESEC were reviewed. Joint meetings with the SHESEC were scheduled for thematic areas of mutual interest to both Committees.

Compliance with the revised Code, including the additional requirements introduced in 2014 in relation to risk management and the viability statement, is set out on page 62.

Role of the Committee
The role of the Committee is primarily to assist the Board in fulfilling its corporate governance obligations in relation to the Group's financial reporting, internal control and risk management systems as well as providing oversight of the internal audit function and the external auditors.

Membership and attendance
Margherita Della Valle, as Deputy Group CFO of Vodafone Group plc, is considered by the Board to have recent and relevant financial experience as required by the Code. Carlos Pascual and Steve Pusey were appointed to the Committee on 1 January 2015 and 1 April 2015, respectively. Carlos Pascual stood down as a member of the Committee following the review of the Board and Committee governance structure in July 2015. Each member of the Committee is an independent Non-Executive Director who has a wide range of relevant business experience. Further details regarding the Directors' skills and experience can be found in their biographies on page 44. The Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities.

Meetings of the Committee are attended by the Chairman of the Board, the Chief Executive, the Group Chief Financial Officer, the Group General Counsel & Company Secretary and the Head of Internal Audit, Risk & Controls, none of whom do so as of right. Other senior executives will attend as required to provide information on matters being discussed which fall into their area of responsibility. The external auditors, PricewaterhouseCoopers LLP (PwC), also attend each meeting. The Committee meets individually with the external auditors, the Group Chief Financial Officer and the Head of Internal Audit, Risk & Controls at each meeting without Executives present.

Areas of focus and training
An annual schedule of training is designed to provide the Committee members with practical training and insight into specific areas of interest. In 2015, there were two training sessions focused on understanding and assessing risks in commodity trading and the trade lifecycle, including a visit to the trading floor to experience front office gas trading.

Responsibilities of the Audit Committee:
- to support the Board in fulfilling its responsibilities in effective governance of the Company's financial reporting, internal controls and risk management;
- to provide advice to the Board on whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy;
- monitoring and reviewing the operation and effectiveness of the Group's internal audit function, including its strategic focus, activities, plans and resources;
- the appointment and, if required, the removal of the Head of Internal Audit, Risk & Controls;
- managing the relationship with the Group's external auditors on behalf of the Board including the policy on the award of non-audit services;
- to conduct a tender for the external audit contract at least every 10 years and make appointment recommendations to the Board;
- to consider and review legal and regulatory compliance issues, specifically in relation to financial reporting and controls, and, together with the SHESEC, maintain oversight of the arrangements in place for the management of statutory and regulatory compliance in areas such as financial crime; and
- to establish and oversee whistleblowing and fraud prevention arrangements within the Group.

Key issues considered by the Audit Committee:
- review of the 2014 preliminary results, the 2014 Annual Report and Accounts and 2015 half-year results and Interim Report;
- consideration of updates to the Code and its application to the 2015 Annual Report and Accounts including complying with new provisions relating to the robust assessment of risks and the viability statement;
- full consideration of the key judgements and financial reporting matters in 2015;
- assessment of the effectiveness of the system of risk management and internal controls;
- review and approval of audit and non-audit fees;
- consideration and recommendation that the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable;
- review of effectiveness of external auditors (PwC);
- review of Group Assurance Report and Group Compliance Report;
- consideration of adherence across the Group with regulatory and compliance requirements, including the undertakings in respect of Centrica Storage;
- review of internal audit activity;
- consideration of whether the judgements, estimates and assumptions used in the presentation of the Financial Statements were reasonable and consistent; and
- regular updates of cases reported to the Company's 'Speak Up' helpline.

Risk management and internal controls

Internal audit

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Group's internal audit function, including its strategic focus, activities, plans and resources. The appointment and removal of the Head of Internal Audit, Risk & Controls is also a matter for the Committee.

The Group's internal audit three-year plan for the period 2016 to 2018 was approved by the Committee in 2015, which was primarily risk-based and also focused on the assurance of core processes. The Committee also reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan.

During the year, the Committee received regular reports summarising the findings from the Group's internal audit function's work and action plans to resolve any highlighted areas. The Committee monitored the progress of the most significant action plans to ensure these were completed satisfactorily.

The Board's review of the system of risk management and internal controls

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with the Group's Business Principles and policies are assessed. Self-certification is completed both at the half year and full year. The results of the annual process, together with the conclusions of the internal reviews by internal audit, inform the annual assessment of the effectiveness of the systems of risk management and internal controls performed by the Audit Committee in 2015.

External auditors

The Committee manages the relationship with the Group's external auditors on behalf of the Board. The Committee considers annually the scope, fee, performance and independence of the external auditors as well as whether a formal tender process is required. PwC were reappointed auditors of the Group at the AGM held in April 2015.

The Board considers it of prime importance that the external auditors remain independent and objective and as a safeguard against this being compromised, the Committee implemented and monitors a policy on the independence of external auditors. This policy details the process for the appointment of the external auditors, the tendering policy, the provision of non-audit services, the setting of audit fees and the rotation of audit partner and staff. There are no contractual or similar obligations restricting the Group's choice of external auditors.

Effectiveness and independence of the external auditors

To assess the effectiveness and independence of the external auditors, the Committee carried out an assessment of PwC. This included a review of the report issued by the audit quality review team regarding PwC and an internal questionnaire completed by Committee members and relevant members of management on their views of PwC's performance. The questionnaire covered a review of the audit partner and team, the audit scope and approach, audit plan execution, auditor independence and objectivity and robustness of the challenge of management. The feedback received was reviewed by management and reported to the Committee and the Board.

In addition, to ensure the independence of the external auditors and in accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board and as a matter of best practice, PwC have confirmed their independence as auditors of the Company, in a letter addressed to the Directors. Together with PwC's confirmation and report on their approach to audit quality and transparency, the Committee concluded that PwC demonstrated appropriate qualifications and expertise and remained independent of the Group and that the audit process was effective.

Non-audit fees

In order to preserve the independence of the external auditor, the Committee is responsible for the policy on the award of non-audit services to the external auditors. A copy of this policy is available on our website. The award of non-audit work, within permitted categories, is subject to pre-clearance by the Committee, should the fees in a given year exceed a specified threshold. All significant non-audit work is tendered and where PwC were appointed, it was considered that their skills and experience made them the most appropriate supplier of the work. Significant engagements undertaken during 2015 included tax compliance and advice on corporate finance support for acquisitions and disposals. On a quarterly basis, the Committee is provided with reports of all non-audit assignments awarded to the external auditors and a full breakdown of non-audit fees incurred. A summary of fees paid to the external auditors is set out in note S9 to the Financial Statements.

Appointment of the external auditors

PwC have been the external auditor of the Group since the demerger of Centrica in 1997. As in past years, at the Committee's request, and following PwC's review of the prior year audit, they presented a formal audit plan and fee proposal for 2015. Following a full review and having given full consideration to the performance and independence of the external auditors, the Committee has recommended to the Board that a resolution to re-appoint PwC be proposed at the 2016 AGM and the Board has accepted and endorsed this recommendation. In accordance with the Code, the Group expects to perform an audit tender in 2016 for the 2017 year-end audit, which will coincide with the next audit partner rotation.

Audit information

Each of the Directors who held office at the date of approval of the Annual Report and Accounts confirms that, so far as they are aware, there is no relevant audit information of which PwC are unaware and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that PwC are aware of that information.

Directors' and Corporate Governance Report continued

Key judgements and financial reporting matters in 2015	Audit Committee reviews and conclusions
Impairment of goodwill, upstream gas and oil assets, power generation assets and storage facility assets The Group makes judgements and estimates in considering whether the carrying amounts of its assets are recoverable. These judgements include primarily the achievement of Board approved business plans, long-term projected cash flows, generation and production levels (including reserve estimates) and macroeconomic assumptions such as the growth and discount rates and long-term commodity and capacity market auction prices used in the valuation process. In the forecasts, where forward market prices are not available, prices are determined based on internal model inputs.	The Committee reviewed management reports detailing the carrying and recoverable value of the assets and the key judgements and estimates used. At the year-end it concluded pre-tax impairments of Centrica Energy upstream gas and oil assets of £1,865 million relating to the UK, Dutch and Norwegian gas and oil assets (£1,514 million, including £510 million of goodwill), Canadian upstream assets (£309 million, including £99 million of goodwill) and Trinidad and Tobago gas assets (£42 million) were required, primarily due to declining market gas and oil prices. Reductions in baseload power prices and forecast capacity market auction prices, have led the Committee to conclude pre-tax impairments of the Group's power assets were also required. These related to its finance leased UK gas-fired power station of £31 million and the Nuclear investment (in associate) of £372 million. The Committee reviewed the recoverable amount of all other significant balance sheet assets and concluded they had recoverable values in excess of the carrying value and were not impaired. The external auditors held discussions with the Committee on the key judgements and assumptions used in the impairment tests and provided their own analytical report. Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and S2 on pages 105 to 107, 140 and 141.
Presentation of certain re-measurements and exceptional items The Group reflects its underlying financial results in the business performance column of the Group Income Statement. To be able to provide this clearly and with consistent presentation, the effects of certain re-measurements of financial instruments and exceptional items are reported separately in a different column in the Group Income Statement.	In prior years the Committee received training on the classification of exceptional items and certain re-measurements on the face of the income statement. The Committee reviewed management reports detailing the judgements regarding the appropriate presentation of items as certain re-measurements and exceptional items. The Committee considered the size, nature and incidence of these items and concluded that separate disclosure of these items was appropriate in the Financial Statements. Exceptional items include the upstream asset impairments in the UK, the Netherlands, Norway, North America and Trinidad and Tobago, impairment of the Group's investment in associate (Nuclear) and of its finance leased UK gas-fired power station asset, along with additional onerous contract provisions predominantly in relation to the tolling contract of the finance leased UK gas-fired power station. Further detail is provided in note 7 on page 105.
Downstream revenue recognition The Group's revenue for energy supply activities includes an estimate of energy supplied to customers between the date of the last meter reading and an estimated year-end meter reading. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, revenue is not recognised.	The Committee has reviewed and held discussions with the external auditors on the level of provisions made during the year. The implementation of a new billing system in British Gas Business in 2014 meant that the determination of the appropriate level of unbilled revenue and of bad debt provisions last year required more judgement than in previous years. During 2015 unbilled revenue assessments have returned to pre-implementation levels however, the review of bad debt provisioning has continued to require more judgement. The Committee has reviewed management reports detailing these judgements and concluded that the level of provision is adequate. Further detail of accrued energy income and provision for credit loss is provided in note 17 on pages 119 and 120.
Determination of long-term commodity prices Long-term commodity price forecasts are derived using valuation techniques based on available external data. A significant number of judgements and assumptions are used in deriving future commodity curves. These forecasts are benchmarked against other third-party forecasts and are approved by the Group's Executive Committee. The long-term commodity price forecasts are used in determining the fair values of derivative financial instruments in North America and Europe. They are also a key input in the Group's impairment valuation testing.	The Committee reviewed management reports detailing the key developments during the year and a summary of price changes and drivers. The Committee also reviewed the proposed valuation commodity curves versus those of external third parties. The external auditors also provided detailed reporting and held discussions with the Committee on the potential impact of changes in the commodity curves. More detail on the assumptions used in determining fair valuations is provided in note S6 on pages 153 to 155. Sensitivities of the asset impairment tests to changes in price forecasts are provided in note 7 on pages 105 to 107.
Onerous contracts The Group makes judgements and estimates in considering whether the unavoidable costs of meeting specific obligations exceed the associated future net benefits. During the period, a new onerous contract provision was established for further unavoidable costs under the tolling contract for its finance leased UK gas-fired power station. An assessment of the economic benefits which partially offset these costs is based on forecast production profiles, forward prices for power, gas and carbon and forecast capacity market auctions and forecast operating and capital expenditure.	A review and discussion of provisions with management was undertaken by the Committee and by the external auditors, including the utilisation and release of existing provisions and any new provisions made during the year. The Committee reviewed management reports detailing the key judgements and estimates used, including the discount rate assumptions used. Further detail on provisions and the assumptions used in determining the value is provided in notes 7 and 21 on pages 105, 107 and 123.

Key judgements and financial reporting matters in 2015	Audit Committee reviews and conclusions
Pensions The cost, assets and liabilities associated with providing benefits under defined benefit schemes is determined separately for each of the Group's schemes. Judgement is required in setting the key assumptions used for the actuarial valuation which determines the ultimate cost of providing post-employment benefits, especially given the length of the Group's expected liabilities.	The Committee reviewed and approved the key assumptions and disclosures in the Financial Statements. Independent actuaries are consulted on the appropriateness of the assumptions and discussions are held with the external auditors. Further details on pensions are set out in note 22 on pages 124 to 128.
Going concern and liquidity risk The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash. To mitigate this risk the Group holds cash on deposit and maintains significant committed facilities. The Group regularly prepares an assessment detailing these available resources to support the going concern assumption in preparing the Financial Statements.	The Committee reviewed management's funding forecasts and sensitivity analysis and the impact of various possible adverse events including significant commodity price movements and credit rating downgrades. The Committee also reviewed the forecast liquidity position of the Group in the context of the borrowing constraints under the Articles of Association, including the analysis considering the remote scenario of borrowing restrictions remaining in place after the Company's AGM on 18 April 2016. The external auditors also provided detailed reporting and held discussions with the Committee. Following the review, the Committee recommended to the Board the adoption of the going concern statement in the Annual Report and Accounts 2015. Further details on sources of finance are set out in note 24 on page 131 and in the Going Concern section of the Directors' and Corporate Governance Report on page 62.
Ofgem Consolidated Segmental Statement The Group is required to prepare an annual regulatory statement (Consolidated Segmental Statement ('CSS')) for Ofgem which breaks down our licensed activities for the financial year into a generation, domestic and non-domestic and electricity and gas result. The CSS is reconciled to our externally reported IFRS Annual Report and Accounts. The Group publishes the CSS at the same time as our full year Annual Report and Accounts and the CSS is independently audited. In preparing the CSS, judgement is required in the allocation of non-specific costs between domestic and non-domestic and electricity and gas and the distinction between licensed and non-licensed activities.	The Committee reviewed the CSS and the key judgements and disclosures made in its preparation. The external auditor also provided a detailed report and held discussions with the Committee. The full CSS and the independent audit opinion approved by the Committee for publication are set out on pages 183 to 193.

Directors' and Corporate Governance Report continued

SAFETY, HEALTH, ENVIRONMENT, SECURITY AND ETHICS COMMITTEE (SHESEC)

Members

- Mike Linn (Chairman)
- Margherita Della Valle
- Carlos Pascual
- Steve Pusey

Mike Linn, Committee Chairman

In July 2015, following the review of the Board and Committee governance structure, the Board took the decision to convene a new Committee, the Safety, Health, Environment, Security and Ethics Committee (SHESEC) to focus on specific principal risks identified by the Group. At the same time, the Corporate Responsibility Committee ceased, its duties being addressed either by the Board or by the SHESEC in the revised governance framework.

The SHESEC met for the first time in September 2015 where it spent time formalising its forward agenda to ensure its focus was aligned with those principal risks considered to have a greater impact potentially on the Group in the short to medium term. Understandably this will be an iterative process and a full year's review of the Committee's activities will be reported in the 2016 Annual Report and Accounts.

Role of the Committee

The Committee has non-executive responsibility for the oversight of the adequacy and effectiveness of the Company's internal controls and risk management systems in respect of certain principal risks identified by the Group. These are as follows and the Committee will be considering each one in terms of their ethical and compliance implications:

- People: engagement, culture and behaviours;
- Sourcing and supplier management;
- Health, Safety, Environment and Security; and
- Legal and Regulatory matters.

Membership and attendance

The Committee is chaired by Mike Linn, an independent Non-Executive Director. The Board has determined that each member of the Committee is independent. During the year, the Chairman of the Board and the Chief Executive regularly attended Committee meetings.

Key issues reviewed by the Safety, Health, Environment, Security and Ethics Committee:

- developing the priority risk focus for the Committee's forward; agenda programme;
- cyber and data security; and
- health and safety matters relating to asset integrity.

NOMINATIONS COMMITTEE

Members

- Rick Haythornthwaite (Chairman)
- Margherita Della Valle
- Lesley Knox
- Mike Linn
- Ian Meakins
- Carlos Pascual
- Steve Pusey

Rick Haythornthwaite, Committee Chairman

2015 was a busy year for the Nominations Committee. We reviewed the succession plans in place for the Board and the Executive. We also considered and appointed Steve Pusey as a Non-Executive Director and Mark Hodges and Jeff Bell to Executive Director positions on the Board.

Role of the Committee

The Committee ensures there is a formal and appropriate procedure for the appointment of new Directors to the Board. The Committee is responsible for leading this process and making recommendations to the Board.

Membership and attendance

The Committee is chaired by the Chairman of the Board who is an independent Non-Executive Director. Carlos Pascual and Steve Pusey were appointed to the Committee on 1 January 2015 and 1 April 2015, respectively. During the year, the Chief Executive and the Group HR Director attended Committee meetings at which matters related to succession planning for senior management were considered.

Each member of the Committee is an independent Non-Executive Director who has a wide range of relevant business experience. Further details regarding the Directors' skills and experience can be found in their biographies on page 44.

Key issues reviewed by the Nominations Committee:

- review of Committee membership;
- the appointments of Jeff Bell, Mark Hodges and Steve Pusey;
- consideration of exposure to loss of key personnel;
- succession planning for the Group Chief Financial Officer;
- succession planning for the Managing Director, British Gas;
- succession planning for the Senior Independent Director and the Non-Executive Directors; and
- a review of the skills of each of the Directors and the independence of each of the independent Non-Executive Directors prior to the 2015 AGM and recommendation that each of them be subject to re-election at the 2015 AGM.

REMUNERATION COMMITTEE

Members

- Lesley Knox (Chairman)
- Margherita Della Valle
- Mike Linn
- Ian Meakins
- Carlos Pascual

Lesley Knox, Committee Chairman

Set out below are the key governance features of the Remuneration Committee. The Remuneration Report can be found on page 63, which contains more detail on the main areas of focus for the Committee in 2015.

Role of the Committee

The role of the Committee is to determine and make recommendations to the Board on the Company's policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives.

Membership and attendance

The Committee is chaired by Lesley Knox, an independent Non-Executive Director. Carlos Pascual was appointed to the Committee on 1 January 2015. Rick Haythornthwaite and Steve Pusey stood down as members of the Committee following the review of the Board and Committee governance structure in July 2015. The Board has determined that each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matters relating to his or her own remuneration. Meetings of the Committee are attended by the Chairman of the Board, the Chief Executive, the Group General Counsel & Company Secretary and the Group HR Director.

Responsibilities of the Remuneration Committee:

- determine total individual remuneration packages and terms and conditions for the Board and senior executives;
- approve the design of, and determine targets for, any performance related pay schemes for the Executive Committee and approve the total annual and long-term incentive plan (LTIP) payments;
- review the design of all share incentive plans for approval by the Board and the Company's shareholders; and
- prepare and recommend to the Board for approval each year a report on remuneration policy and a separate report on the implementation of the policy in the last financial year.

Key issues reviewed by the Remuneration Committee:

- the rules of three new share plans, including the LTIP for Executive Directors;
- the new remuneration policy, following shareholder consultation;
- the approval of incentive targets for the awards made in 2015, and pay and incentive awards granted to Executive Directors and Executive Committee members in the year;
- the approval of the terms of appointment for two new Executive Directors and one Executive Committee member;
- developments and trends in executive remuneration with the independent external remuneration committee adviser; and
- input to and approval of the individual performance conditions for the Chief Executive recruitment awards and evaluation of the achievement against the targets set.

DISCLOSURE COMMITTEE

Members

- Iain Conn (Chairman)
- Jeff Bell
- Grant Dawson

Iain Conn, Committee Chairman

Role of the Committee

The Disclosure Committee is responsible for the implementation and monitoring of systems and controls in respect of the management and disclosure of inside information and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with applicable legal or regulatory requirements.

At each Executive Committee meeting, transactions or events must be considered against the disclosure obligations of the Company and whether any matter was considered to be price sensitive.

Membership and attendance

The Committee is chaired by Iain Conn, the Chief Executive. Iain Conn was appointed to the Committee on 1 January 2015.

Responsibilities of the Disclosure Committee:

- a review of the preliminary results announcement, the interim management statement, the half-year results and the trading statements;
- consideration of the release of regulatory and industry announcements;
- key management changes; and
- announcements in respect of specific projects.

Key issues reviewed by the Disclosure Committee:

- stock exchange announcements about customer pricing;
- the proposed final dividend and the final preliminary results announcement;
- the interim management statement, the trading update and approval of the final draft of the announcements; and
- the interim dividend and the announcement in respect of both the interim results for the six months to 30 June 2015 and the outcome of the strategic review.

Directors' and Corporate Governance Report continued

OTHER STATUTORY INFORMATION

The Directors submit their Annual Report and Accounts for Centrica plc, together with the consolidated financial statements of the Centrica group of companies, for the year ended 31 December 2015. The directors' report required under the Companies Act 2006 comprises this Directors' and Corporate Governance Report, the Directors' Remuneration Report and the How We Do Business section for disclosure of our greenhouse gas emissions in the Strategic Report.

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the Strategic Report, (which includes the risks relating to our business), Shareholder Information and details of acquisitions and disposals made by the Group during the year in note 12. This Directors' and Corporate Governance Report fulfills the requirements of the corporate governance statement required under Disclosure & Transparency Rule 7.2.1.

Future developments

A description of future developments can be found in the Strategic Report. A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 38 to 42.

Results and dividends

The Group's results and performance summary for the year are set out on page 1. Dividends paid and proposed are set out in note 11 to the Financial Statements on page 111.

Financial instruments

Full details of the Group's financial instruments can be found in notes 19, S3 and S6 on pages 121, 148 and 154 respectively.

Articles of Association (Articles)

The Company's Articles were adopted at the 2010 Annual General Meeting (AGM). They may only be amended by a special resolution of the Shareholders. A resolution will be put forward to shareholders at the 2016 AGM to propose making amendments to the Articles. Full details are set out in the Notice of AGM.

Directors

The names of the Directors who held office during the year are set out on pages 44 and 45.

Details of the authority, role and powers of Directors are set out within this Directors' and Corporate Governance Report.

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and members of the Executive Committee. Qualifying third-party indemnity provisions (as defined by section 234 of the Act) were in force during the year ended 31 December 2015 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and officers.

Employment policies

Employee involvement

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts by the Chief Executive and members of the Board at key points in the year.

The Company's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In the UK we offer both Sharesave, HMRC's Save as You Earn Scheme, and the Share Incentive Plan (SIP) with good levels of take-up across the Group. Currently, 57% of eligible UK employees participate in Sharesave and 36% of eligible UK employees participate in the SIP. Details of both schemes are set out in the Remuneration Report on page 69.

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit.

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavour to retain employees in the workforce if they become disabled during employment.

Human rights

As an international company we have a responsibility and are committed to uphold and protect the human rights of individuals working for us in the communities and societies where we operate. We take steps to ensure that our people working in countries with a high risk to human rights are safeguarded, as set out in our Business Principles and Human Rights Policy. We also recognise the opportunity we have to contribute positively to global efforts to ensure human rights are understood and observed.

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 2015, Centrica's shareholder engagement programme included:

- formal presentations for the announcement of the Group's 2014 preliminary and 2015 interim results;
- meetings between the Chief Executive and Group Chief Financial Officer and the Company's major shareholders during the year;
- meetings between the Chief Executive and the Company's major shareholders, as part of his induction process;
- 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, unless unforeseen circumstances arise.

At the AGM, the Chairman and the 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.

Ian Meakins, 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.

Material shareholdings

At 31 December 2015, Centrica had received notification of the following material shareholdings pursuant to the Disclosure & Transparency Rules:

	31 December 2015	
	Ordinary shares	% of share capital
Aberdeen Asset Managers Limited	244,065,649	4.91%
Invesco Limited	251,354,895	4.99%
Schroders plc	248,775,761	5.00%
Schroders Investment Management Limited	289,823,318	5.72%

In the period 31 December 2015 to 18 February 2016, Invesco Limited have disclosed, in accordance with these rules, an increase and a subsequent decrease, in their shareholding to 4.99%, 253,431,126 ordinary shares.

Political donations

Centrica's political donations policy states that Centrica operates on a politically neutral basis. No donations were made by the Group for political purposes during the year. However, in accordance with the Federal Election Campaign Act, Direct Energy has authorised the establishment of a Political Action Committee (PAC), to facilitate voluntary political contributions by its US employees. The PAC is not controlled by Centrica and contributions from the fund are determined by a governing board of PAC members. Participation in the PAC is voluntary for eligible employees. In 2015, contributions to the PAC by employees amounted to $62,126.50. The PAC made 19 political donations totalling $11,000.

Significant agreements – change of control

The following are significant agreements to which the Company is party which take effect, alter or terminate in the event of a change of control in the Company following a takeover bid:

- as part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of the Centrica Group) assigned ownership of the British Gas trademarks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a reassignment of this intellectual property if control of Centrica is acquired by a third party; and
- in 2009, Centrica entered into certain transactions with EDF Group in relation to an investment in the former British Energy Group, which owned and operated a fleet of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from these nuclear power stations. As part of the arrangements, on a change of control of Centrica, the Group loses its right to participate on the boards of the companies in which it has invested. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments to EDF Group.

Related party transactions

Related party transactions are set out in note S8 to the Financial Statements.

Events after the balance sheet date

Events after the balance sheet date are disclosed in note 26 to the Financial Statements.

Disclosures required under Listing Rule 9.8.4R

The Company is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. The other information that may be relevant to the Directors' Report can be found in the following sections of the Annual Report and Accounts 2015.

Information	Location in Annual Report	Page(s)
Directors' compensation	Remuneration Report	63 to 79
Capitalised interest (borrowing costs)	Financial Statements	107, note 8
Details of long-term incentive schemes	Remuneration Report	68

Share capital

The Company has a single share class which is divided into ordinary shares of $6^{14}/_{81}$ pence each. The Company was authorised at the 2015 AGM to allot up to 1,656,357,416 ordinary shares as permitted by the Act. As at 31 December 2015, the Company had not allotted any shares under this authority. A renewal of this authority will be proposed at the 2016 AGM. The Company's issued share capital as at 31 December 2015, together with details of shares issued during the year, is set out in note 25 to the Financial Statements.

Rights attaching to shares

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders is set out in the Articles and in explanatory notes which accompany notices of general meetings, all of which are available on our website.

Repurchase of shares

As permitted by the Articles, the Company obtained shareholder authority at the 2015 AGM to purchase its own shares up to a maximum of 496,907,224 ordinary shares. The minimum which must be paid for each ordinary share is its nominal value and the maximum price is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share as derived from the London Stock Exchange Trading System, in each case, exclusive of expenses.

As at 31 December 2015, 58,705,016 shares were held as treasury shares. These shares held in treasury represent 1.2% of the Company's issued share capital. Dividends are waived in respect of shares held in the treasury share account.

Directors' and Corporate Governance Report continued

Shares held in employee benefit trusts

The Centrica plc Employee Benefit Trust (EBT) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the Deferred and Matching Share Scheme, the Deferred Bonus Plan and the Restricted Share Scheme. The Centrica plc Share Incentive Plan Trust (SIP Trust) is used to purchase shares on behalf of the Company for the benefit of employees, in connection with the SIP. Both the Trustees of the EBT and the SIP, in accordance with best practice, have agreed not to vote any unallocated shares held in the EBT or SIP at any general meeting and dividends are waived in respect of these shares. In respect of allocated shares in both the EBT and the SIP Trust, the Trustees shall vote in accordance with participants' instructions. In the absence of any instruction, the Trustees shall not vote.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 5 to 9 and the Business Review on pages 28 to 37.

The Directors have considered the implications on going concern and viability for the Group following the significant declines in commodity prices and resulting asset impairments during the year. Under the terms of the Articles of Association (Articles) the Group's borrowings are currently restricted to the higher of £5 billion and three times its adjusted capital and reserves. Whilst preparing the Annual Report and Accounts, the Directors became aware that, predominantly due to the impairments and the resulting reduction in capital and reserves, the Group's borrowings limit under the Articles would reduce to £5 billion from the date of approval of these audited Financial Statements. There will, therefore, be a technical breach of Article 94. Consequently, the Directors are proposing a resolution at the AGM to amend the Articles to increase the limit on the Company's borrowing powers. They consider that the resolution to be proposed is in the best interests of shareholders and are therefore confident that the resolution will be passed.

The Directors have reviewed the implications of this technical breach, including evaluating the Group's liquidity position and availability of cash resources. This analysis also considered the remote scenario of restrictions continuing after the Company's AGM. Following this review, the Directors continue to have a reasonable expectation that the Company and the Group as a whole have adequate resources to meet their financial obligations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position and going concern review are provided in notes 24 and S3 to the Financial Statements.

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 and 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.

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, detailed on pages 38 to 42, that could have a significant impact on the financial performance of the Group including commodity prices, energy demand driven in part by weather, customer numbers and the evolving regulatory landscape. A number of risks, particularly commodity prices, could change significantly over both the short, medium and longer term. Taking account of the principal risks, the Group's current position and risk mitigation, the Board consider three years as the most suitable timeframe to form a reasonable expectation as to the Group's longer term viability.

Directors' responsibilities statement

The Directors, who are named on pages 44 and 45, are responsible for preparing the Annual Report, the Directors' Remuneration Report, the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Accordingly, the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company Financial Statements respectively; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Act and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts 2015, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors confirm that to the best of their knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Strategic Report contained on pages 1 to 42 together with the Directors' and Corporate Governance Report on pages 47 to 62, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- as outlined on page 55, there is no relevant audit information of which PwC are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Grant Dawson
Group General Counsel & Company Secretary
18 February 2016

Remuneration Report

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2015.

OVERVIEW

In April 2015, we asked shareholders to approve our new Remuneration Policy as well as the new Long Term Incentive Plan (LTIP) for Executive Directors (Executives). We were pleased to receive votes in support from over 91% of our shareholders for both of these resolutions. We believe the new policy represents a simpler remuneration structure for our Executives and better alignment with the strategic direction of the Group. Overall maximum remuneration has been reduced and the stretching financial and non-financial targets reflect the key performance indicators (KPIs) that have been set for the business.

The remuneration structure has been designed with a large proportion of awards being delivered in shares which have holding periods of up to five years. Malus and clawback apply to both cash and share awards. In addition, Executives have a minimum shareholding requirement of 200% of gross salary and all vested shares will be held until this level has been reached.

As set out in the Chief Executive's statement, the primary long-term financial goal for the Group is now adjusted operating cash flow (AOCF) growth. In order to ensure continued alignment of Executive remuneration, the Committee believes that AOCF should be the basis of the Annual Incentive Plan (AIP) financial measure. After consulting with a number of key shareholders who indicated strong support, the Committee decided to exercise its discretion and set an AOCF related target for 2016. A summary of the Remuneration Policy is provided over pages 66 to 71 revised only to reflect this amendment.

We were disappointed that the vote in favour of our 2015 remuneration report was just under 67%. Having undertaken consultation before and after the AGM we understand that some shareholders had concerns about the one-off recruitment awards granted to our new Chief Executive, as compensation for the forfeiture of unvested long-term incentive plan awards from his previous employer. Specifically, the concerns related to the qualitative nature of the performance conditions and whether the awards were necessary. The Committee considered the need for the awards very carefully during the recruitment process and concluded that it was absolutely necessary to include the awards in the offer in order to secure the Board's strongly preferred candidate in the face of significant competition. In setting performance conditions for the awards the Committee was mindful of reinforcing the initial priorities it had set for the new Chief Executive and committed to full and transparent disclosure of achievement against the Board's expectations. Set out in detail on page 75 of this report is the Committee's assessment of performance against the targets that were set in respect of the first tranche of shares. As the recruitment award was made in April 2015 and comprised a fixed number of shares, the value at vesting will have decreased in line with our share price, demonstrating alignment of interest between the Chief Executive and our shareholders.

EXECUTIVE DIRECTOR CHANGES

There were a number of Executive Director changes during the year. Remuneration for all new Executives has been set in line with our approved policy and has been disclosed at the time of appointment.

Lesley Knox, Chairman of the Remuneration Committee

"A large proportion of awards are delivered in shares which have holding periods of up to five years."

Iain Conn was appointed as Chief Executive on 1 January and Mark Hodges was appointed as Group Executive Director and Chief Executive, Energy Supply & Services, UK & Ireland, in June. We appointed Jeff Bell as Group Chief Financial Officer in August. The remuneration summary and report this year cover the remuneration received by these three new Executives, for the time they served on the Board, as well as Mark Hanafin and our Non-Executive Directors.

PERFORMANCE FOR THE YEAR

The summary over the following two pages includes targets and outcomes relating to the year as well as total remuneration received in respect of 2015.

Although Group adjusted operating profit decreased compared with the previous year, this was against a challenging environment with further falls in wholesale gas and power prices during the year. Weak performance in British Gas Business and Direct Energy Services was offset by good results elsewhere in the Group which, together with a strong contribution from Bord Gáis Energy contributed to an increase in total downstream operating profit of 19%. As a result, Group financial performance under the AIP was a fraction ahead of target.

Despite solid performance against our non-financial KPIs across the three-year performance period ending with 2015, as the Group economic profit target under both the Long Term Incentive Scheme and the Deferred and Matching Share Scheme was not met, there will be no payouts in 2016 for the Executives under either of the long-term incentive plans.

Lesley Knox
Chairman of the Remuneration Committee
18 February 2016

Remuneration Summary for 2015

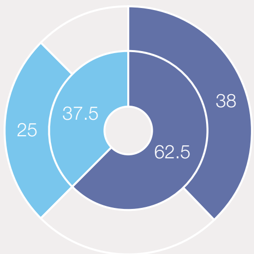
SHORT-TERM AND LONG-TERM INCENTIVE PERFORMANCE 2015

The charts below set out the measures and their weighting (inner circle) and the performance achieved against the maximum (outer circle) for both the short-term (Annual Incentive Plan) and long-term (Long Term Incentive Scheme and Deferred and Matching Share Scheme) incentive arrangements operated during the year.

Short-term incentive targets

Group financial performance – adjusted operating profit (excluding the restatement of fair value depreciation because the targets were set before the decision to change the definition – see note 2 on page 93 for more details) of £1,511 million was required for target achievement and £1,586 million for maximum. Individual strategic objectives – achievement against strategic objectives aligned to the Group's strategic priorities, measured in line with the Group's performance management process.

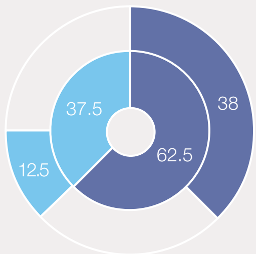
Iain Conn %



- Group operating profit
- Strategic objectives

Strategic objectives included a particular focus on safety, compliance and conduct across the Group; analysis of the risk universe and the creation of plans to strengthen the system of internal control; strengthening external relationships, particularly with investors, regulators, media and government and executing a response to the low commodity price environment.

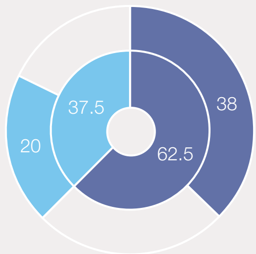
Jeff Bell %



- Group operating profit
- Strategic objectives

Strategic objectives included significant input to the Group strategic review; development of the Group financial framework and associated investor communications; delivery of the 2015 plan; risk management and risk appetite review; reshaping Group Procurement and raising a new Hybrid Bond.

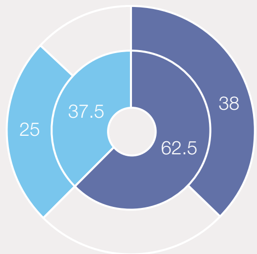
Mark Hanafin %



- Group operating profit
- Strategic objectives

Strategic objectives included safety performance and reliability of operations; long-term supply deals; E&P production and operating response to low commodity price environment; asset integrity; CCGT strategy; delivery of midstream trading plan and development of distributed energy strategy.

Mark Hodges %



- Group operating profit
- Strategic objectives

Strategic objectives included a full review of British Gas strategy including development of the future operating model; focus on safety, conduct and regulatory practice; increasing NPS; the Group's response to the CMA investigation and creating near term efficiency opportunities.

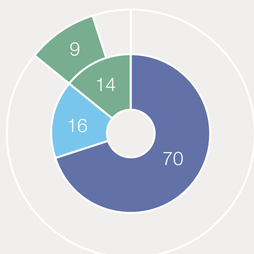
Long-term incentive targets

Performance against Economic Profit (EP), Earnings per Share (EPS) and non-financial KPIs was measured over a three-year period ending with 2015. In addition, a positive or negative TSR multiplier is applied to any vesting outcome.

The EP and EPS performance targets have not been achieved. Performance against the non-financial KPI dashboard across the three-year period was strong, however, as a result of the EP target not being met, the non-financial KPI portion of the LTIS award will not vest.

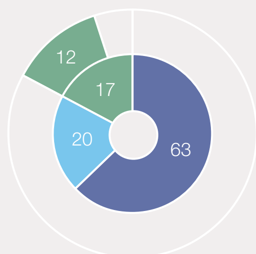
None of the long-term incentive plans ending with the 2015 performance year will vest and therefore there will be no payout in 2016. Full details of the performance outcomes are set out on pages 73 and 74.

Jeff Bell %



- Group EP
- EPS
- Non-financial KPIs

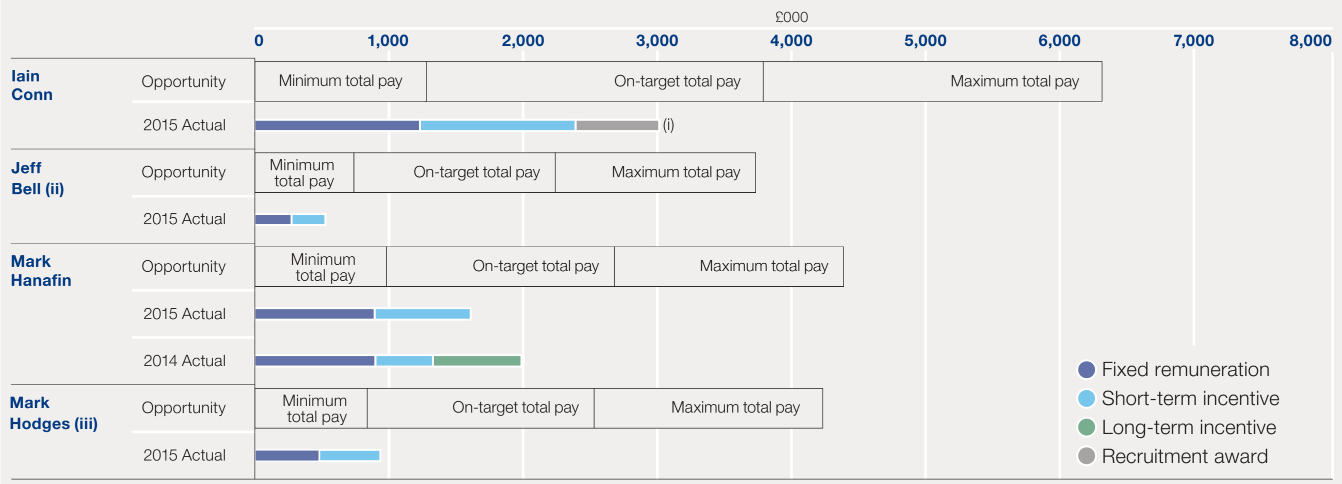
Mark Hanafin %



- Group EP
- EPS
- Non-financial KPIs

MAXIMUM TOTAL REMUNERATION OPPORTUNITY AND TOTAL REMUNERATION RECEIVED IN 2015

The chart below sets out the total remuneration received for the year for each Executive Director on the Board for all or part of 2015, prepared on the same basis as the single figure for total remuneration table set out on page 72. In addition, for comparison purposes, the chart provides an indication of minimum, on-target and maximum total remuneration opportunity, prepared on the same basis.



(i) Achievement against the performance conditions set for the first tranche of the recruitment award is disclosed on page 75.

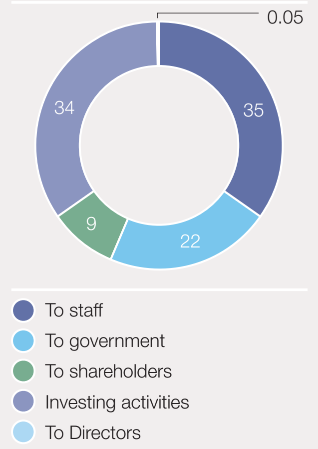
(ii) Jeff Bell was appointed to the Board on 1 August 2015.

(iii) Mark Hodges was appointed to the Board on 1 June 2015.

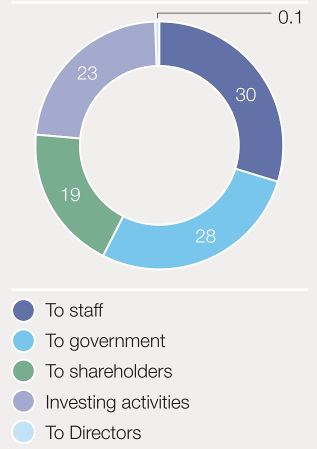
2015 CASH FLOW DISTRIBUTION TO STAKEHOLDERS

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart below, the Directors' aggregate total remuneration for the year equates to 0.05% (2014: 0.1%) of the Group's operating cash flow.

2015 %



2014 %



A further c.£400 million of investment was funded from borrowing and other sources rather than from operating cash flows and £420 million was returned to shareholders through the share repurchase programme.

Remuneration Policy

Set out over the following pages is a summary of the Remuneration Policy that was approved by shareholders on 27 April 2015. The full Remuneration Policy can be found at centrica.com.

EXECUTIVE DIRECTORS' REMUNERATION

The 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 as indicated in the chart below. 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).

Short-term incentives relate to awards under the Annual Incentive Plan (AIP) which is described on page 67. Long-term incentives relate to awards under the Long Term Incentive Plan (LTIP) which is described on page 68.

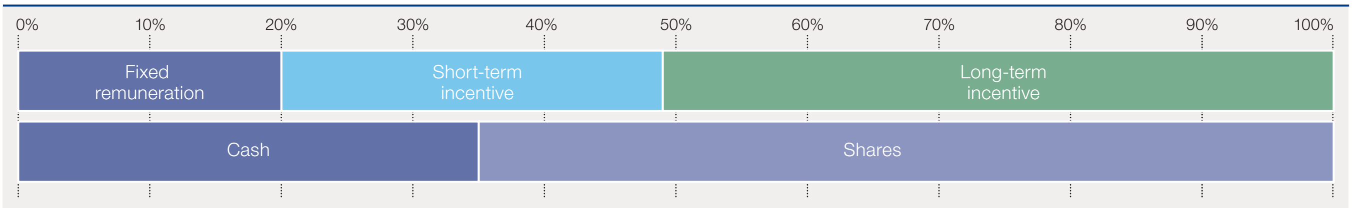
KPIs have been selected that align with our purpose: to deliver energy and services to satisfy the changing needs of our customers, and also support our long-term financial goals. In addition, our underlying principles of operating safely and with an engaged workforce are included.

The KPIs, set out in detail on pages 20 and 21, 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 LTIP there are mandatory holding periods of three to five years from grant or award date, to provide further alignment with the returns to our shareholders.

Remuneration principles

- The potential maximum remuneration that Executives could receive is a key consideration when agreeing the level of base pay and the performance related elements of the remuneration package;
- the Committee takes account of, and is sensitive to, shareholder views, market changes, skills availability, competitive pressure and/or the economic climate when considering Executive remuneration. In so doing, the Committee follows similar principles that apply when remuneration is considered for all other employees within the Group; and
- benchmarking against UK cross-industry comparator organisations of similar size and complexity is used to assist the Committee in evaluating market movement and the relative competitive position of Executive remuneration to ensure that packages offered support the attraction and retention of high calibre individuals.



KPIs and incentives

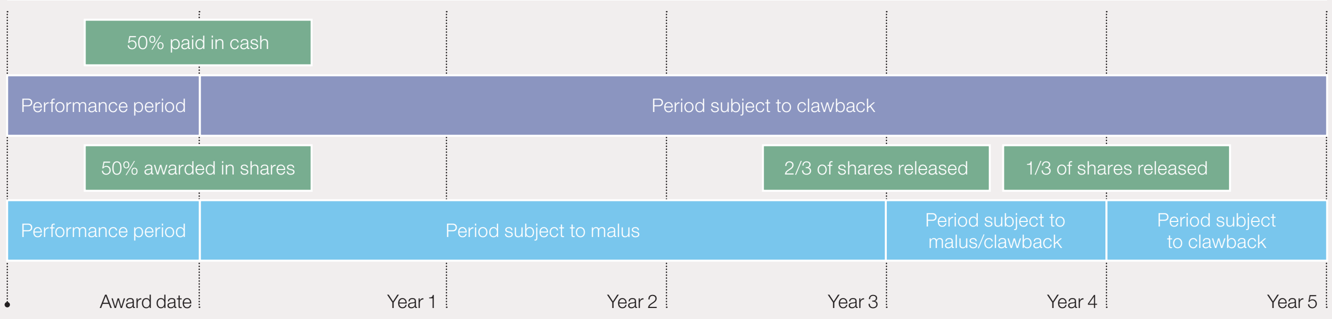
KPI	Incentive link
Adjusted operating cash flow (AOCF)	AIP primary financial measure
Adjusted operating profit	LTIP economic profit three-year measure
Adjusted basic earnings per share (EPS)	LTIP EPS growth measure
Total shareholder return (TSR)	AIP deferred share investment and minimum shareholding 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

Remuneration Policy table

The table below sets out the Remuneration Policy that was approved at the AGM on 27 April 2015 and applies to Executives.

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Base pay/salary Reflects the scope and responsibility of the role and the skills and experience of the individual. Salaries are set at a level sufficient to allow the Company to compete for international talent and to recruit, motivate and retain individuals of the correct calibre to execute our strategy.	Base salaries are reviewed annually, taking account of performance, market conditions and pay in the Group as a whole. Changes are usually effective from 1 April each year. This is consistent with the previously approved policy.	Ordinarily, base salary increases in percentage terms will be in line with increases awarded to other employees of the Group. Increases may be made above this level to take account of individual circumstances such as a change in responsibility, progression in the role or a significant increase in the scale or size of the role. The base salary for an Executive will not exceed £1 million per annum. This is consistent with the previously approved policy.	Not applicable.
Short-term incentive plan Designed to reward the delivery of key strategic priorities for the year. These priorities position the Group for strong short-term financial performance, in service of longer-term strategic goals.	The AIP is a new plan and together with the new Long Term Incentive Plan (LTIP) replaces the previous Annual Incentive Scheme (AIS), Deferred and Matching Share Scheme (DMSS) and Long Term Incentive Scheme (LTIS). The AIP is designed to incentivise and reward the achievement of demanding financial and individual strategically aligned performance objectives. Following measurement of the performance outcome, half of the AIP award is paid in cash. The other half is required to be deferred into shares, two-thirds of which are released after three years and the remaining third after four years. Dividends are payable on the shares during the restricted period. If overall business performance is not deemed satisfactory, an individual's AIP payment for the year may be reduced or forfeited, at the discretion of the Committee. Malus and clawback apply to the cash and share awards (see policy table notes on page 70).	Maximum of 200% of base salary. Half the maximum is payable for on-target performance. The minimum award is 0%. The maximum was 180% of base salary under the previously approved policy. The 20% of base salary increase in maximum opportunity is offset by the 80% of base salary reduction in maximum long-term incentive opportunity and longer deferral periods.	Up to 75% of base salary based on individual strategic objectives aligned to the Group's strategic priorities, with the remainder based on adjusted operating cash flow (for 2016 onwards) and adjusted operating profit adjusted for movements in tax and capital employed (for 2015). Assessed over one financial year. Up to 72% of base salary was based on individual strategic objectives under the previously approved policy.

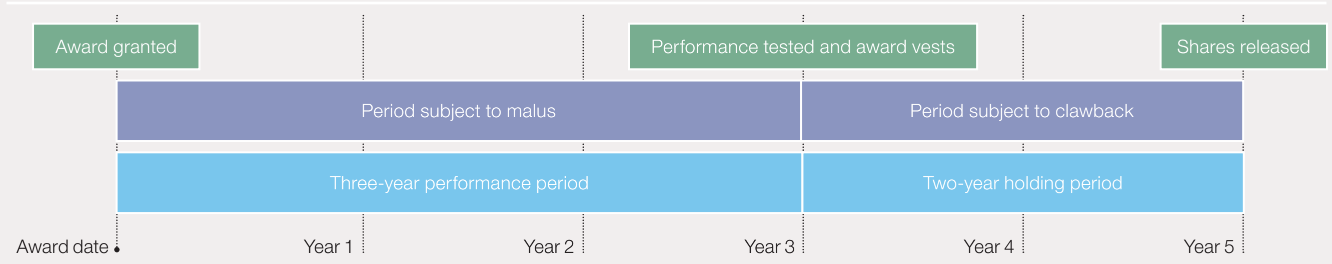
AIP timeline



Remuneration Policy continued

Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Long-term incentive plan Assists with Executive retention and incentivises an appropriate balance between short-term performance and long-term value creation for shareholders. Encourages sustainable high performance. Provides a direct link between remuneration and KPIs, reinforcing the desire for sustainable high performance over the long term.	The new LTIP simplifies the previous long-term incentive arrangements which were delivered under two separate schemes. LTIP awards are granted to Executives each year based on a percentage of base salary at the point of award. Shares vest at the end of a three-year performance period, depending on the achievement against the Company performance targets, but are not released until the fifth anniversary of the award date. LTIP awards are usually delivered as conditional shares which vest at the end of the three-year performance period. Awards may also be granted as nil-cost options with a seven-year exercise period. It is a requirement of the LTIP that the net shares are held for a further two years following the vesting date. Malus applies to the shares during the three-year performance period and clawback applies to the shares during the two-year retention period (see policy table notes on page 70). Dividend equivalents are calculated at the end of the performance period on any conditional LTIP share awards or nil-cost options. Dividend equivalents are paid as additional shares or as cash. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.	Maximum of 300% of base salary plus dividend equivalents. The minimum vesting level is 0%. The maximum was 380% of base salary plus dividend equivalents under the previously approved policy.	One-third based on EPS over the three-year performance period. One-third based on absolute aggregate EP over the three-year performance period. One-third based on non-financial KPI dashboard. Where performance falls between stated points, vesting is calculated on a straight-line basis. The weighting to non-financial KPIs has marginally increased from 30% to 33.3% compared with the long-term incentive arrangements in the previously approved policy. This reflects the Committee's view of the appropriate balance between financial and non-financial measures at two-thirds/one-third respectively.

LTIP timeline



Purpose and link to strategy	Operation and clawback	Maximum opportunity	Performance measures
Pension Positioned to provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Incoming Executives are entitled to participate in a Company money purchase pension arrangement or to take a fixed salary supplement (calculated as a percentage of base salary, which is excluded from any bonus calculation) in lieu of pension entitlement. The Group's policy is not to offer defined benefit arrangements to new employees at any level, unless this is specifically required by applicable legislation or an existing contractual agreement. This is consistent with the previously approved policy.	30% salary supplement for Chief Executive and 25% salary supplement for all other Executives. This is consistent with the previously approved policy.	Not applicable.
	Executives employed prior to 2013 are entitled to participate in a Centrica pension arrangement or to receive a fixed salary supplement in lieu of pension entitlement in accordance with the terms of their contracts. Mark Hanafin is entitled to receive a salary supplement equal to 40% of his base salary in lieu of pension or to participate in a Company money purchase pension arrangement. We would continue to honour defined benefit pension arrangements in the event of an individual being promoted to the Board who retains a contractual entitlement to such a pension benefit. This is consistent with the previously approved policy.	40% salary supplement for Executives employed prior to 2013. This is consistent with the previously approved policy.	
Benefits Positioned to ensure competitiveness with market practice.	The Group offers Executives a range of benefits including some or all of: • a company-provided car and fuel, or a cash allowance in lieu; • life assurance and personal accident insurance; • health and medical insurance for the Executive and their dependants; • health screening; and • a contribution towards financial planning advice. This is consistent with the previously approved policy.	Cash allowance in lieu of company car – £22,000 per annum. The benefit in kind value of other benefits will not exceed 5% of base salary. This is consistent with the previously approved policy.	Not applicable.
Relocation and expatriate assistance To enable the Group to recruit or promote the right individual into a role, to retain key skills and to provide career opportunities.	Assistance may include (but is not limited to) removal and other relocation costs, housing or temporary accommodation, education, home leave, repatriation and tax equalisation. This is consistent with the previously approved policy.	Maximum of 100% of base salary. This is consistent with the previously approved policy.	Not applicable.
All-employee share plans Provide an opportunity for employees to voluntarily invest in the Company.	UK-based Executives are entitled to participate in the HMRC-approved Sharesave and Share Incentive Plan (SIP) on the same terms as all other eligible employees. The Sharesave plan offers a three or five-year savings period, with up to a 20% discount to the market value of the shares at the point of grant. The SIP currently offers partnership and matching shares. Dividends paid on SIP shares may be reinvested in the plan. This is consistent with the previously approved policy.	Maximum contribution limits are set by legislation. Levels of participation allowed by the Board are within these limits and apply to all participants. The SIP currently awards one free matching share for every two partnership shares purchased, up to a maximum of 22 matching shares per month, although the plan allows for higher levels of matching award. This is consistent with the previously approved policy.	Not applicable.

Remuneration Policy continued

Policy table notes

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Remuneration Policy set out above, where the terms of the payment were agreed before the policy came into effect, at a time when the relevant individual was not an Executive of the Company or, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive of the Company. For these purposes payments include the amounts paid in order to satisfy awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

PENSION ARRANGEMENTS APPLYING TO EXECUTIVES

Centrica Unfunded Pension Scheme (CUPS)

All registered scheme benefits are subject to HMRC guidelines and the Lifetime Allowance.

The CUPS defined contribution (DC) section provides benefits for individuals not eligible to join the CUPS defined benefit (DB) section and for whom registered scheme benefits are expected to exceed the Lifetime Allowance. The CUPS DC section is offered as a direct alternative to a cash salary supplement.

The CUPS DB section was closed to new members in October 2002.

CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's balance sheet.

PERFORMANCE MEASURES

Adjusted earnings per share (EPS)

EPS is the Company's basic earnings per share adjusted for exceptional items and certain re-measurements.

Adjusted operating cash flow (AOCF)

AOCF is the net cash flow from operating activities (which includes taxes paid) adjusted to include dividends received and to exclude payments relating to exceptional charges, pension deficit contributions and collateral cash flows.

Economic profit (EP)

EP is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital.

Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Non-financial KPI dashboard

The non-financial KPI dashboard is designed to reward sustained high performance over the entire three-year performance period. The equally weighted measures are:

- lost time injury frequency rate (LTIFR);
- significant process safety event;
- British Gas net promoter score (NPS);
- Direct Energy NPS; and
- employee engagement.

Employee engagement survey data is collected by an external provider and compared against an independent benchmark database.

Deloitte LLP review selected non-financial KPIs, providing limited assurance using the International Standard on Assurance Engagements ISAE 3000 (Revised). The full assurance statement, together with the Basis of Reporting, are available at Centrica.com/CRassurance.

For each measure, three performance zones have been established, represented by the following indicators:

- High performance zone
- Median performance zone
- Low performance zone

MALUS AND CLAWBACK

The Committee can apply malus (ie reduce the number of shares in respect of which an award vests) or delay the vesting of awards if it considers it appropriate where a participant has engaged in gross misconduct or displayed inappropriate management behaviour which fails to reflect the governance and values of the business or where the results for any period have been restated or appear inaccurate or misleading.

Where an award has vested, the resulting shares will generally be held for a period during which they may be subject to clawback in the event that the Committee determines that one or more of the circumstances above has occurred.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Remuneration Policy

Centrica's policy on Non-Executive Directors' (Non-Executives) fees takes into account the need to attract high quality individuals, their responsibilities, time commitment and market practice.

Terms of appointment

Non-Executives, including the Chairman, do not have service contracts. Their appointments are subject to Letters of Appointment and the Articles of Association.

Remuneration Policy table

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and Non-Executive Director fees Sufficient level to secure the services of individuals possessing the skills, knowledge and experience to support and oversee the Executive Directors in their execution of the Board's approved strategies and operational plans.	The fee levels for the Chairman are reviewed every two years by the Remuneration Committee. The fee levels of the Non-Executives are reviewed every two years by the Executive Committee. Non-Executives are paid a base fee for their services. Where individuals serve as Chairman of a Committee of the Board, additional fees are payable. The Senior Independent Director also receives an additional fee. **Fee levels from 1 January 2016:** Base fee £72,500 per annum. The following additional fees apply: • Chairman of Audit Committee – £25,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Safety, Health, Environment, Security and Ethics Committee – £20,000 per annum; and • Senior Independent Director – £20,000 per annum. **Fee levels from May 2010 to 31 December 2015:** Base fee £65,000 per annum. The following additional fees applied: • Chairman of Audit Committee – £23,000 per annum; • Chairman of Remuneration Committee – £20,000 per annum; • Chairman of Corporate Responsibility Committee – £20,000 per annum; • Chairman of Safety, Health, Environment, Security and Ethics Committee (established July 2015) – £20,000 per annum; and • Senior Independent Director – £20,000 per annum. The Company reserves the right to pay a Committee membership fee in addition to the base fees. Non-Executives are able to use 50% of their fees, after appropriate payroll withholdings, to purchase Centrica shares. Dealing commission and stamp duty is paid by the Non-Executive. The Non-Executives, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes. Non-Executives will be reimbursed for business expenses relating to the performance of their duties including travel, accommodation and subsistence. In certain circumstances these, or other incidental items, may be considered a 'benefit in kind' and if so may be grossed up for any tax due.	The maximum level of fees payable to Non-Executives, in aggregate, is set out in the Articles of Association.	Not applicable.

Directors’ Annual Remuneration Report

DIRECTORS’ REMUNERATION IN 2015

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2015.

Single figure for total remuneration (audited)

£000	**2015** Salary/ fees	2014 Salary/ fees	**2015** Bonus (cash)	2014 Bonus (cash)	**2015** Bonus (deferred)	2014 Bonus (deferred)	**2015** (xi) Benefits	2014 (xi) Benefits	**2015** (xii) LTIPs	2014 (xiii) LTIPs (restated)	**2015** (xiv) Recruit-ment award	2014 Recruit-ment award	**2015** (xv)(xvi) Pension	2014 Pension	**2015** Total	2014 Total (restated)
Executives																
Iain Conn(i)	**925**	–	**581**	–	**581**	–	**29**	–	**–**	–	**616**	–	**277**	–	**3,009**	–
Jeff Bell(ii)	**229**	–	**116**	–	**116**	–	**10**	–	**–**	–	**–**	–	**58**	–	**529**	–
Mark Hanafin	**621**	606	**361**	–	**361**	432	**24**	25	**–**	660	**–**	–	**249**	265	**1,616**	1,988
Mark Hodges(iii)	**365**	–	**230**	–	**230**	–	**20**	–	**–**	–	**–**	–	**91**	–	**936**	–
Sam Laidlaw(iv)	**–**	967	**–**	592	**–**	–	**–**	61	**–**	1,234	**–**	–	**–**	418	**–**	3,272
Nick Luff(v)	**–**	407	**–**	–	**–**	–	**–**	28	**–**	–	**–**	–	**–**	187	**–**	622
Chris Weston(vi)	**–**	605	**–**	–	**–**	–	**–**	46	**–**	–	**–**	–	**–**	166	**–**	817
															6,090	6,699
Non-Executives																
Rick Haythornthwaite	**495**	495	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**495**	495
Margherita Della Valle	**88**	88	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**88**	88
Lesley Knox	**85**	85	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	85
Mike Linn	**73**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**73**	65
Ian Meakins	**85**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**85**	65
Carlos Pascual(vii)	**65**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	–
Steve Pusey(viii)	**49**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**49**	–
Mary Francis(ix)	**–**	105	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	105
Paul Rayner(x)	**–**	65	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	65
															940	968
Total															**7,030**	7,667

(i) Iain Conn was appointed as Chief Executive on 1 January 2015.
(ii) Jeff Bell was appointed as an Executive Director on 1 August 2015.
(iii) Mark Hodges was appointed as an Executive Director on 1 June 2015.
(iv) Sam Laidlaw retired from Centrica on 31 December 2014.
(v) Nick Luff resigned as an Executive Director on 31 August 2014.
(vi) Chris Weston resigned as an Executive Director on 30 December 2014.
(vii) Carlos Pascual was appointed as a Non-Executive Director on 1 January 2015.
(viii) Steve Pusey was appointed as a Non-Executive Director on 1 April 2015.
(ix) Mary Francis resigned as a Non-Executive Director on 31 December 2014.
(x) Paul Rayner resigned as a Non-Executive Director on 31 December 2014.
(xi) Taxable benefits include car allowance, health and medical, financial planning advice and long service awards. Non taxable benefits include matching shares received under the Share Incentive Plan and the gain from any options exercised under the HMRC-approved Sharesave plan.
(xii) The long-term incentives include the value of the LTIS and DMSS matching awards due to vest in April 2016, relating to the three-year performance period ending in 2015. The performance targets have not been met and these awards therefore will not vest. Details of the performance outcome are set out on pages 73 and 74.
(xiii) The long-term incentives vesting in respect of 2014 have been recalculated based on the share price on the date of vest which was 257p. The previous disclosure in the 2014 single figure table used an estimated share price.
(xiv) The recruitment award shares vesting in April 2016 have been valued to calculate an estimated payout using the share price at 31 December 2015 which was 218p. The value of the estimated dividend equivalent shares has been included.
(xv) Notional contributions to the CUPS DC scheme for Mark Hanafin and Jeff Bell (less an allowance for CPI inflation of 2.7% in 2014 and 1.3% in 2015) have been included in this table as if CUPS DC were a cash balance scheme. Jeff Bell joined the scheme on 1 August 2015 and the figure shown above represents the notional accumulated value of his CUPS DC benefits as at 31 December 2015.
(xvi) Iain Conn and Mark Hodges are entitled to receive a salary supplement of 30% and 25% of base pay respectively.

Base salary/fees

Base salaries for Executives were reviewed on 1 April 2015 and will be reviewed during the course of 2016 as part of the normal annual cycle.

Mark Hanafin’s base salary increased by 2.46% to £625,000 (the previous increase of 2.52% was in April 2014). The salaries for Iain Conn (£925,000), Jeff Bell (£550,000) and Mark Hodges (£625,000) were set during the year for their new appointments to the Centrica Board and were disclosed accordingly.

Base fees for Non-Executives were reviewed in November 2015 and were increased on 1 January 2016 from £65,000 to £72,500 per annum. The additional fee for the Chairman of the Audit Committee was also increased from £23,000 to £25,000 per annum. The increases were in line with the Remuneration Policy. Prior to this increase, Non-Executives’ fees had been at the same level since 2010.

Bonus (AIP)

The performance targets for the 2015 AIP are set out in the Remuneration Summary. The charts on page 64 under short-term incentive targets indicate the extent of achievement for each Executive receiving a payment relating to 2015, for each component of the AIP.

Pension

Jeff Bell is entitled to receive a salary supplement of 25% of base pay or participate in the CUPS DC Scheme. As Mark Hanafin was an Executive prior to 2013, he is entitled to receive a salary supplement of 40% of base pay or participate in the CUPS DC Scheme. During the year, they both participated in the CUPS DC Scheme and received an unfunded promise equal to 25% and 40% of base pay respectively. Iain Conn and Mark Hodges elected to receive salary supplements and these are included in the single figure for total remuneration table on page 72.

Notional contributions to the CUPS DC Scheme have been included in the single figure for total remuneration table as if it was a cash balance scheme and therefore notional investment returns for the year have been included. The notional pension fund balances are disclosed below.

Pension benefits earned by Directors in the CUPS DC Scheme (audited)

CUPS DC Scheme[i]	**Total notional pension fund as at 31 December 2015 £**	Total notional pension fund as at 31 December 2014 £
Jeff Bell	**57,600**	–
Mark Hanafin	**818,860**	562,121

(i) The retirement age for the CUPS DC Scheme is 62.

Long-term incentive plans vesting in 2016

Performance conditions

The performance conditions relating to the LTIS awards vesting in 2016 are set out below, together with an explanation of the achievement against these performance conditions.

Vesting criteria	Performance conditions over three-year period
35% on EPS[i] growth against RPI growth	Full vesting for EPS growth exceeding RPI growth by 30% Zero vesting if EPS growth does not exceed RPI growth by 9% Vesting will increase on a straight-line basis between 25% and 100% between these points
35% on absolute aggregate EP	Full vesting for aggregate EP of £3,400 million Zero vesting if aggregate EP is below £2,600 million Vesting will increase on a straight-line basis between 25% and 100% between these points
30% on non-financial KPI dashboard	As disclosed on page 74
Positive/negative multiplier on TSR performance against the FTSE 100 Index	0.667 multiplier for Index -7% per annum and 1.5 multiplier for Index +7% per annum, subject to a cap at the face value of the award. Where performance falls between stated points, vesting is calculated on a straight-line basis

(i) EPS is the Group's adjusted basic earnings per share.

Performance outcome

Earnings per share (EPS)

EPS growth during the three-year period ending with 2015 did not exceed RPI growth by 9%. Consequently, the EPS portion of the 2013 LTIS award will not vest.

Economic Profit (EP)

Aggregate EP achieved during the three-year period ending with 2015 was £2,194 million when compared to a threshold level of £2,600 million and a maximum level of £3,400 million. Consequently, the EP portion of the 2013 LTIS awards, and the DMSS matching awards, will not vest.

Directors' Annual Remuneration Report continued

Long-term incentive plans vesting in 2016 (continued)

LTIS non-financial KPI dashboard

For each measure three performance zones have been established, represented by the indicators below. Throughout each three-year performance period, for each median performance zone outcome, 5% of the KPI shares will be forfeited and for each low performance zone outcome, 10% of the KPI shares will be forfeited.

- High performance zone
- Median performance zone
- Low performance zone

The non-financial KPI results in 2013, 2014 and 2015 are as follows:

	Performance period – LTIS awards granted in 2013 and due to vest in 2016		
Measure	Year 1 2013	Year 2 2014	Year 3 2015
Lost time injury frequency rate (LTIFR)	High	High	High
Significant process safety event	High	High	High
British Gas net promoter score (NPS)(i)	Low	Median	High
Direct Energy NPS	High	High	High
Employee engagement	Median	Median	Median

	Performance period – LTIS awards granted in 2014 and due to vest in 2017		
Measure	Year 1 2014	Year 2 2015	Year 3 2016
Lost time injury frequency rate (LTIFR)	High	High	
Significant process safety event	High	High	
British Gas net promoter score (NPS)(i)	Median	High	
Direct Energy NPS	High	High	
Employee engagement	Median	Median	

Performance against the non-financial KPI dashboard for the three-year period ending with 2015 resulted in 70% of the KPI portion of the 2013 LTIS award becoming eligible for vesting.

As a result of the EP performance target not being met for the three-year period ending with 2015, the KPI portion of the 2013 LTIS award will not vest. There will therefore be no payout under the LTIS in 2016.

KPI performance under the LTIP

Set out below is the achievement against the KPI dashboard for the first year of measurement for LTIP awards granted in 2015.

	Performance period – LTIP awards granted in 2015 and due to vest in 2018		
Measure	Year 1 2015	Year 2 2016	Year 3 2017
Lost time injury frequency rate (LTIFR)	High		
Significant process safety event	High		
British Gas net promoter score (NPS)(i)	Median		
Direct Energy NPS	High		
Employee engagement	Median		

READ MORE ABOUT OUR KPIs ON PAGES 20 AND 21.

(i) In 2015, British Gas NPS methodology changed to focus on experiences at the end of key customer journeys. This new methodology will therefore be used going forward under LTIP and our actual performance can be viewed on pages 20 and 21. The outgoing methodology based on contact and brand scores will continue to be used under LTIS. In 2015, performance under the outgoing methodology was +28 (high performance zone), up from +23 (median performance zone) in 2014.

Conditional awards granted to the Chief Executive in 2015 (audited)

	(i) Number of shares	(ii) Value of shares at grant £000	(iii) Estimated value of shares vesting £000	Vesting/ release date
Iain Conn	**359,112**	**925**	**616**	April 2016
Iain Conn	**718,223**	**1,850**	**N/A**	April 2017/18

(i) In accordance with the Company's approved recruitment policy the awards above were granted to Iain Conn for the forfeiture of existing unvested long-term incentive awards in the form of conditional Centrica shares. The vesting of both awards is subject to the achievement of personal strategic objectives, which are summarised below.
(ii) The share price used to calculate the number of shares granted was 257.58p, being the average closing share price over five business days immediately preceding the grant date of 1 April 2015.
(iii) The shares have been valued to calculate an estimated payout using the share price at 31 December 2015 which was 218p. The value of the estimated dividend equivalent shares has been included.

In accordance with the Company's approved recruitment policy and as previously announced, the Committee agreed to provide compensation to Iain Conn for the forfeiture of existing unvested long-term incentive awards in the form of conditional Centrica shares.

Two awards of conditional shares were granted to Iain Conn in April 2015, the first with a face value equal to £925,000 vesting on the first anniversary of the award date and the second with a face value equal to £1,850,000 vesting on the second anniversary of the award date and released in April 2018. In accordance with the minimum shareholding guidelines, any shares released (following the sale of sufficient shares to cover the income tax and National Insurance contributions due on vesting) will be held until his shareholding is above the minimum guideline for Executives.

The vesting of both awards is subject to the achievement of personal strategic objectives. Three-quarters of each award will vest if the Committee is satisfied that Iain Conn's performance, in relation to the objectives set, has at least matched the expectations of the Board. Each award may vest in full if the Committee considers his performance to have significantly exceeded expectations. If the Committee considers his performance to have been below expectations, the shares will not vest and the award will be forfeit.

In reviewing Iain Conn's performance, the Committee stated that it would consider progress against the following objectives:

- strategy: to establish a sustainable growth strategy for Centrica that is attractive to and earns the support of all key stakeholders (expected by end Q3 2015);
- organisational structure: to consider organisational structure, processes, systems, culture and costs and effect any change deemed appropriate (expected by end Q4 2015);
- capability: to ensure that all the capabilities crucial to the success of the growth strategy have robust development plans that can be delivered at a pace commensurate with competitive demands (expected by end Q2 2016); and
- reputation: to build relationships with society necessary to achieve a demonstrable improvement in the external belief in Centrica as a consumer-centric company, UK national leader, influential in Europe and North America and a responsible market participant (expected by end Q4 2016).

These measures are in addition to but complement the objectives set in respect of the AIP.

Performance achievement

The Committee has determined that in respect of the first award, Iain Conn has achieved both the strategy and organisational structure objectives specified for 2015. With regard to the strategy objective, a deep and fundamental review of Centrica's strategy has been conducted and a clear purpose and strategic direction has been established. The strategy addresses all the key issues raised by the Board and by investors and enables Centrica to deliver growth and returns. Following its communication, the strategy has been well received. Investors support the overall strategic direction. Other external stakeholders, such as media, government and regulators, understand the strategy and support its focus on customers. Internally, the strategic review process was conducted in a way to drive alignment and buy-in of the leadership. Its conclusions, whilst inevitably raising some uncertainty, are a source of excitement and momentum for the business.

With regard to the organisational structure objective, a full review of the organisational structure, processes and systems has been conducted. Fundamental changes have been agreed and implemented which are necessary to deliver the strategy and success of Centrica. New business units and operating units have been introduced. The role of the Corporate Centre and Group Functions has been clarified, and decisions have been taken on group functional design. New Executive Committees of the CEC have been established to mirror new Board Committees and the risk universe, and areas of improvement of management systems have been identified and plans established. To start to shift the culture in line with the goal of 'One Centrica', new ways of working have been agreed and Group priorities clarified. Finally, a very significant cost efficiency prize of £750 million has been identified and organisation design has been mapped to this.

In light of these activities, the Committee is satisfied that Iain Conn has met the expectations of the Board as set out in the 2015 objectives and as a result 75% (the 'on-target' level) of the first tranche of the recruitment award will vest. The value of the award at vesting will be lower than that announced when the award was made due to the reduction in the share price. The Committee is satisfied that this reflects appropriate alignment between the interests of the Chief Executive and those of shareholders.

The Committee will ensure that a further detailed disclosure will be made next year in respect of the second award of shares which is due to vest in 2017.

Directors' Annual Remuneration Report continued

LTIP awards granted in 2015 (audited)

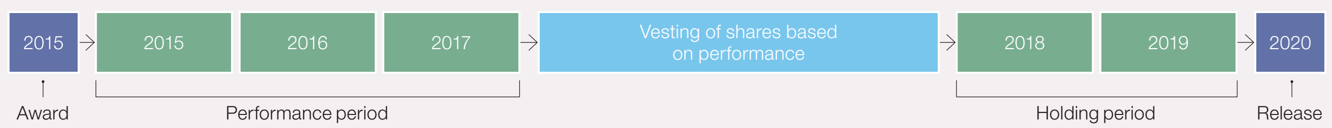
	Number of shares	(i) (ii) Value £000	Vesting date
Iain Conn	**943,012**	**2,470**	May 2018
Mark Hanafin	**637,170**	**1,669**	May 2018
Mark Hodges	**637,170**	**1,669**	May 2018
Jeff Bell (iii)	**546,398**	**1,469**	August 2018

(i) Awards were made in 2015 to Executives based on a value of 267% of salary. The performance conditions relating to these awards are set out below.
(ii) The share price used to calculate the number of shares granted was 261.9p, being the average closing share price over five business days immediately preceding the grant date of 6 May 2015.
(iii) The share price used to calculated the number of shares granted to Jeff Bell was 268.76p, being the average closing share price over the five business days immediately preceding the grant date of 7 August 2015.

LTIP performance conditions for awards granted in 2015

Vesting criteria	Performance conditions over three-year period
1/4 based on EPS growth over 2016 and 2017 (with 2015 as the base year)	Full vesting for EPS growth of 16% or more Zero vesting if EPS growth does not exceed 6% Vesting will increase on a straight-line basis between 0% and 100% between these points
3/8 based on absolute aggregate EP over the 3-year period 2015-2017	Full vesting for aggregate EP of £3,500 million Zero vesting if aggregate EP is below £1,500 million Vesting will increase on a straight-line basis between 0% and 100% between these points
3/8 based on non-financial KPI dashboard over the 3-year period 2015-17	As disclosed on page 74

LTIP timeline

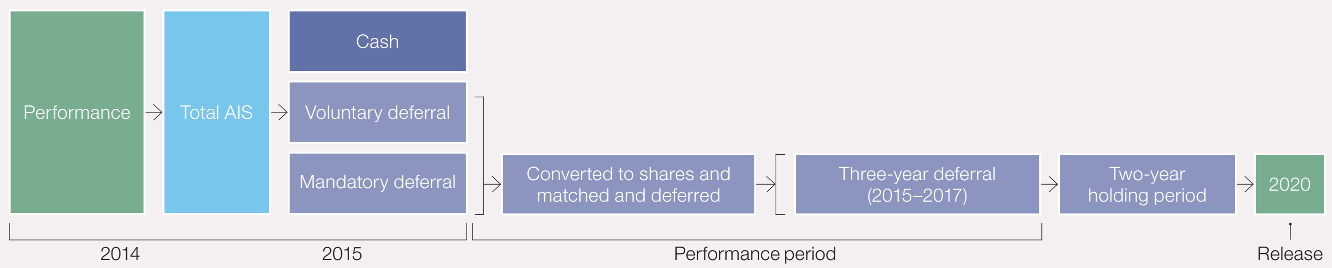


DMSS matching awards granted in 2015 (audited)

	(i) (ii) Number of shares	(iii) Value £000	Vesting date
Mark Hanafin	**362,878**	**915**	April 2018

(i) DMSS matching awards for UK-based Executives are delivered as nil-cost options at the end of the performance period and the options remain exercisable for seven years.
(ii) The DMSS matching award granted in 2015 will vest subject to absolute EP performance over the three-year performance period for the portfolio of business units that Mark is responsible for: minimum £75 million and maximum £150 million provides one or two matching shares respectively. Where performance falls between these points, vesting is calculated on a straight-line basis.
(iii) The share price used to calculate the number of shares granted was 252.15p, being the share price at which the corresponding deferred shares were purchased in the open market on 1 April 2015.

DMSS timeline



Directors' interests in shares (number of shares) (audited)

The table below shows the interests in the ordinary shares of the Company of the Directors who held office during the year together with the minimum shareholding guideline for the Executives, which is 200% of salary, and the achievement against the guideline.

Also included (but not included as part of the minimum shareholder guideline calculation) are details of shares owned by the Executives that are subject to continued service, unvested share awards that are subject to company performance conditions and fully vested unexercised nil-cost share options.

Executives have a period of five years from appointment to the Board, or any material change in the minimum shareholding requirement, to meet the guideline.

	(i) Shares owned outright as at 31 December 2014	**(i) Shares owned outright as at 31 December 2015**	Minimum shareholding guideline (% of salary)	**Achievement as at 31 December 2015 (% of salary)**	**(ii) Shares owned (subject to continued service) as at 31 December 2015**	**(iii) Unvested share awards subject to company performance conditions (incl awards granted in 2015) as at 31 December 2015**	**Fully vested unexercised options as at 31 December 2015**
Executives							
Iain Conn(iv)	–	**140,812**	200	**33**	**–**	**2,020,347**	**–**
Jeff Bell(v)	–	**87,910**	200	**35**	**221,068**	**717,247**	**–**
Mark Hanafin(vi)	244,578	**363,863**	200	**127**	**136,821**	**2,010,120**	**215,261**
Mark Hodges(vii)	–	**320**	200	**0**	**110**	**637,170**	**–**
Non-Executives							
Rick Haythornthwaite	32,500	**33,476**	–	**–**	**–**	**–**	**–**
Margherita Della Valle	14,944	**24,653**	–	**–**	**–**	**–**	**–**
Lesley Knox	12,348	**14,427**	–	**–**	**–**	**–**	**–**
Mike Linn	42,575	**42,575**	–	**–**	**–**	**–**	**–**
Ian Meakins	11,724	**21,535**	–	**–**	**–**	**–**	**–**
Carlos Pascual	–	**–**	–	**–**	**–**	**–**	**–**
Steve Pusey	–	**21,570**	–	**–**	**–**	**–**	**–**

(i) These shares are owned outright by the Director or a connected person and they are not subject to continued service or performance conditions.
(ii) Shares owned subject to continued service are DMSS deferred awards, SIP matching shares that have not yet been held for the 3 year holding period and for Jeff Bell, shares that were awarded in 2014 and 2015 under the Share Award Scheme and the On Track Incentive Plan, before he was appointed to the Board.
(iii) Shares and options that are subject to the achievement of long-term performance conditions are the awards granted under the LTIS in 2013 and 2014, matching awards granted under the DMSS in 2013 and 2014, recruitment awards granted to Iain Conn and include all awards granted in 2015 which are disclosed elsewhere in this Remuneration Report.
(iv) Following the release and allotment of shares in April 2016, it is estimated that Iain Conn will hold shares with a value equal to 131% of salary.
(v) Following the release and allotment of shares in April 2016, it is estimated that Jeff Bell will hold shares with a value equal to 94% of salary.
(vi) Following the release and allotment of shares in April 2016, it is estimated that Mark Hanafin will hold shares with a value equal to 179% of salary.
(vii) Following the allotment of shares in April 2016, it is estimated that Mark Hodges will hold shares with a value equal to 45% of salary.

Directors' Annual Remuneration Report continued

Percentage change in Chief Executive's remuneration compared with other employees

The table below shows the percentage change in base pay/salary, taxable benefits and bonus (annual incentive) payments between 2014 (relating to Sam Laidlaw, the former Chief Executive) and 2015 (for Iain Conn, the current Chief Executive), compared with a comparator group of UK employees, over the same period of time.

	Chief Executive % change	Employees % change
Salary and fees	-4.88	2.71
Taxable benefits	-52.12	0.64
Annual incentive	-1.85	8.11

The comparator group includes management and technical or specialist employees based in the UK in Level 2 to Level 5 (where Level 1 is the Chief Executive). The employees selected have been employed in their role throughout 2014 and 2015 to give a meaningful comparison. The group has been chosen as the employees have a remuneration package with a similar structure to the Chief Executive, including base salary, benefits and annual bonus.

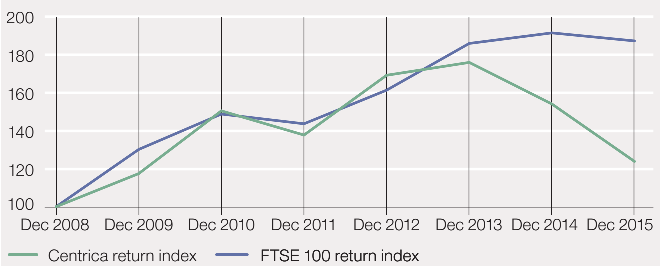
Pay for performance

The table below shows the Chief Executive's total remuneration over the last seven years and the achieved annual variable and long-term incentive pay awards as a percentage of the plan maximum.

Year	Chief Executive single figure of total remuneration £000	Annual bonus payout against max opportunity %	Long-term incentive vesting against max opportunity %
Iain Conn			
2015	3,009	63	0
Sam Laidlaw			
2014	3,272	34	35
2013	2,235	50	0
2012	5,709	61	67
2011	5,047	50	59
2010	5,322	91	62
2009	4,627	92	73

The performance graph below shows Centrica's TSR performance against the performance of the FTSE 100 Index over the seven-year period to 31 December 2015. The FTSE 100 Index has been chosen as it is an index of similar sized companies and Centrica has been a constituent member throughout the period.

Total return indices – Centrica and FTSE 100



Source: Datastream

Fees received for external appointments of Executive Directors

In 2015, Iain Conn received £97,500 as a non-executive director of BT Group plc.

Relative importance of spend on pay

The following table sets out the amounts paid under the share repurchase programme, in dividends and staff and employee costs for the years ended 31 December 2014 and 2015.

	2015 £m	2014 £m	% Change
Share repurchase	**–**	420	-100
Dividends	**387**	864	-55
Staff and employee costs[(i)]	**2,126**	1,927	10

(i) Staff and employee costs are as per note 5 of the Group Income Statement.

Payments for loss of office

During 2015, there were no payments made for loss of office.

Funding of share schemes in 2015

During 2015, treasury shares were used to satisfy the release of shares or exercise of options under DMSS, LTIS, Executive Share Option Scheme (ESOS, under which the last options were granted in 2006), Share Award Scheme (SAS, a conditional share plan for Centrica employees below the executive level), Sharesave and the matching shares in SIP and the North American Employee Share Purchase Program (NA ESPP). Market purchased shares, held in trust, were used to satisfy outstanding allocations under DMSS (deferred and investment shares), the Restricted Share Scheme and the On Track Incentive Plan (conditional share plans for Centrica employees below the executive level), the Deferred Bonus Plan (a plan for International Upstream employees below the executive level). At 31 December 2015, 58,705,016 shares were held in treasury (2014: 76,860,164), following the share repurchase programme throughout 2013 and 2014.

Advice to the Remuneration Committee

The membership of the Remuneration Committee during 2015 is set out in the Directors' and Corporate Governance Report on page 59.

The Chairman, Chief Executive, Group HR Director, Group General Counsel & Company Secretary and Deputy Group HR Director & Group Head of Reward are normally invited to attend each Committee meeting and provide advice and guidance to the Committee, other than in respect of their own remuneration.

The Committee also has access to detailed external information and research on market data and trends from independent consultants. Deloitte LLP (Deloitte) was appointed by the Committee in 2011, following a competitive tender process, as independent external adviser. Deloitte provided advice and support to the Committee on shareholder voting levels, executive remuneration and corporate governance developments, fee benchmarking and best practice disclosure during 2015. The fees for the advice, including preparation for and attendance at Remuneration Committee meetings, amounted to £23,750.

Deloitte has also provided advice to Centrica globally during 2015 in the areas of employment taxes, share schemes, pensions, corporate finance, management consulting and internal audit.

In addition, Deloitte was appointed by the Company in 2014 to provide a TSR monitoring and reporting service. The fees for TSR reports provided to the Committee on completion of the LTIS performance cycles during 2015 amounted to £1,200. Deloitte also provided quarterly TSR reports and updates to the Company which were used to keep the general LTIS population regularly updated with TSR performance.

The Committee is satisfied with the performance of Deloitte and has determined that it is not necessary to seek a tender for the services currently provided.

The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. The Committee is satisfied that the advice it received during the year was objective and independent and that the provision of those other services by Deloitte in no way compromises their independence.

2015 VOTING

At the AGM held on 27 April 2015, shareholders approved the Remuneration Policy and the Directors' Annual Remuneration Report for the year ended 31 December 2014. Below are the results in respect of the resolutions, which required a simple majority (of 50%) of the votes cast to be in favour in order for the resolutions to be passed:

Directors' Remuneration Policy

Votes for	%	Votes against	%
3,102,582,374	91.62	283,889,125	8.38

16,276,123 votes were withheld.

Directors' Annual Remuneration Report

Votes for	%	Votes against	%
2,238,563,698	66.9	1,107,409,157	33.1

56,779,501 votes were withheld.

A full schedule in respect of shareholder voting on the above and all resolutions at the 2015 AGM is available at centrica.com.

IMPLEMENTATION IN THE NEXT FINANCIAL YEAR

No changes to the policy are anticipated in 2016 save for the amendment to the AIP financial target from an adjusted operating profit basis to an adjusted operating cash flow basis, as noted in the Remuneration Committee Chairman's statement on page 63.

Awards will be granted in line with the limits set out in the policy table. Performance measures and targets for the long-term incentive plan align with the Group's new strategy and therefore will remain unchanged.

Adjusted operating cash flow targets are considered commercially sensitive until the year end and will therefore be disclosed retrospectively in the Remuneration Report for the year in question.

Base salaries for Executives will be reviewed during the course of 2016 as part of the normal annual cycle. No changes to pensions or benefits are anticipated.

Non-Executive Director fees were reviewed and new fee levels apply from 1 January 2016, as disclosed on page 72.

CHANGES SINCE 1 JANUARY 2016

Share Incentive Plan (SIP)

During the period from 1 January 2016 to 18 February 2016, Mark Hanafin acquired 188 shares and Mark Hodges acquired 188 shares through the SIP.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf.

Grant Dawson
Group General Counsel & Company Secretary
18 February 2016

Independent Auditors' Report
to the members of Centrica plc

REPORT ON THE FINANCIAL STATEMENTS
Our opinion
In our opinion:

- Centrica plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Group Balance Sheet as at 31 December 2015;
- the Company Balance Sheet as at 31 December 2015;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

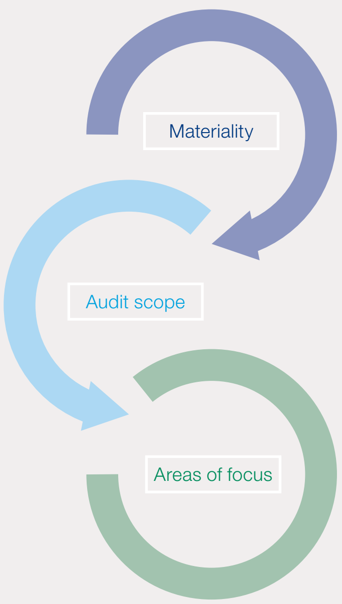
The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' on page 81. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Our audit approach – Overview



Materiality
- Overall Group materiality: £78 million which represents 5% of 3 year average pre-tax profit adjusted for exceptional items and certain re-measurements as defined in the financial statements.

Audit scope
- We conducted our audit work across the Group's locations including the UK, the Republic of Ireland, The Netherlands, Norway, the US and Canada;
- Senior members of the Group audit team performed site visits across the Group's locations. This included Direct Energy in Houston, the Exploration & Production business in Norway and the significant parts of the UK business including British Gas and Centrica Energy; and
- Taken together, the territories and functions where we performed our audit work accounted for 94% of Group revenues and 77% of Group profit before tax. We also performed specific audit procedures on the business units not included in the scope of the audit where they contained material financial balances.

Areas of focus
Our areas of focus comprised:

- Impairment assessment;
- Valuation of derivative transactions in commodity trading;
- Presentation of exceptional items and certain re-measurements;
- Onerous contracts;
- Downstream revenue recognition;
- Pensions; and
- Going concern.

Area of focus	How our audit addressed the area of focus
Impairment assessment The Group has £4.6 billion of property, plant and equipment, the majority of which relates to gas production and storage assets and power generation assets; £1.8 billion of intangible assets and £2.0 billion of goodwill, arising predominantly from historical acquisitions in Centrica Energy Exploration & Production in Europe. Impairment assessments of these assets require significant judgement and there is the risk that valuation of the assets may be incorrect and any potential impairment charge miscalculated. The value of Centrica's assets is supported by either value in use calculations, which are based on future cash flow forecasts or fair value less costs of disposal. Market conditions in 2015 have been very challenging. Falling forecast oil and gas prices have had a significant impact on the Exploration & Production business and outages and falling power prices have put pressure on power generation. These unfavourable macro-economic factors have heightened the possibility of a decline in the assets' value in use and fair values. As a result, taking account of declining oil, gas and power prices and expected future performance, the Directors have determined that certain Exploration & Production assets and power generation assets, including the associated goodwill, are impaired. This has resulted in a total pre-tax impairment charge of £1,004 million being recognised in relation to the UK, The Netherlands and Norwegian gas and oil assets, £210 million being recognised on Canadian Exploration & Production assets and £42 million in relation to gas assets in Trinidad and Tobago. A further impairment charge of £609 million was recognised in relation to goodwill. Also, in assessing their value in use, as a result of the significant fall in spark spreads and low capacity markets, the Group has recognised a pre-tax impairment charge of £31 million in relation to the assets held under a finance lease on the Spalding power station. The Group also recognised a pre-tax impairment charge of £372 million on its nuclear investment, due to declining forecasts of base load power prices and capacity market auction prices. Impairment indicators were identified for the Storage facility following operational issues and declining market spreads. No impairment charge was recorded; however, the model remains highly sensitive to key assumptions. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 3, 7, 13, 15 and S2 in the financial statements.	We assessed and challenged the impairment analysis prepared by the Directors as outlined below. With regard to the overall impairment assessments performed by the Directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified. We evaluated the Directors' assumptions and estimates used to determine the recoverable value of the gas production and storage assets, power generation assets, intangible assets, and goodwill. This includes those relating to operating cost forecasts and expected production profiles. We tested these assumptions by reference to third party documentation where available, such as commodity price forecasts, and consultation with operational management. We used PwC valuation specialists to help us assess the commodity prices and discount rates used by the Directors. We benchmarked these to external data and challenged the assumptions based on our knowledge of the Group and its industry. In addition we tested management's sensitivity and stress test scenarios and found they had applied appropriate judgement. With regard to both the international Exploration & Production assets and power generation assets, we focused on the Directors' assertion that the fall in forecast commodity prices has been the key driver of impairment. We did this through discussions with management to understand the basis of their forecasts, comparing them to available industry data, including price and consumption, and performing sensitivity analysis on their assessments. We also challenged the Directors on the assessment of exceptional 'one-off' drivers, such as commodity prices, that have impacted value as opposed to operational issues incurred in the normal course of business. We challenged the key assumptions used in each impairment model and performed sensitivity analysis around key drivers of cash flow forecasts, including output volumes, commodity prices, operating costs and expected life of assets. Based on our analysis and the analysis performed by our valuations team, we did not identify any material issues with the valuation of international Exploration & Production, storage, power generation assets and goodwill, the accuracy of the impairment charges and the disclosures in the financial statements.
Valuation of derivative transactions in commodity trading The Group enters into a number of forward energy trades to help protect and optimise the value of its underlying production and storage assets, power generation assets, and transportation assets, as well as to meet the future energy and supply needs of customers. Certain of these arrangements are accounted for as derivative financial instruments and are recorded at fair value. Judgement is required in valuing these derivative contracts, particularly where the life of the contract is beyond the liquid market period. The fair value calculation requires bespoke models to be used that are specific to the derivative and, as such, we gave particular focus to the valuation of derivative contracts at the balance sheet date. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 2 and 7 in the financial statements.	We assessed the overall commodity trading process, including internal risk management procedures and the system and controls around origination and maintenance of complete and accurate information relating to derivative contracts. We found the controls in place over this process to be operating effectively and therefore placed reliance on these controls in our testing. We tested the valuation of derivative contracts at the year-end date which require the use of management valuation models. Our audit procedures focused on the integrity of these valuation models and the incorporation of the contract terms and the key assumptions, including future price assumptions and discount rates. We verified input prices into the system and recalculated valuations for a sample of derivatives, as well as performing sensitivity analyses for more complex derivatives. Our testing identified that the models used to value the contracts were appropriate and we did not identify any material issues over the valuation of derivative transactions.

Independent Auditors' Report continued

Area of focus	How our audit addressed the area of focus
Presentation of exceptional items and certain re-measurements The middle column of the income statement represents exceptional items and certain re-measurements. In the current year there is a total pre-tax exceptional charge of £2,358 million and a £103 million pre-tax gain relating to net re-measurements included within operating profit. **Exceptional items** The exceptional items are expected to be non-recurring and are disclosed separately by virtue of their nature, size or incidence. The current year pre-tax charge comprises a £1,865 million impairment of Exploration & Production assets, a £121 million impairment of UK power generation assets and provisions for onerous power procurement contracts and a £372 million impairment of nuclear assets. The charge is offset by a £512 million tax credit comprising the net of taxation on exceptional items of £477 million, an impairment charge of Exploration & Production deferred tax assets of £81 million and a £116 million credit arising from the change of UK tax rates. The appropriate classification of exceptional items involves subjective judgement by management including whether the item is truly exceptional and non-recurring. Our focus was on testing that the presentation and disclosure of these items is materially correct. **Certain re-measurements (as defined in the financial statements)** Certain re-measurements, which resulted in pre-tax gains totalling £103 million, relate to the fair valuing of forward energy trades as described above in our area of focus on the valuation of derivative transactions in commodity trading. There are two main types of trades: • Optimisation trades – It is the Directors' view that movements in the fair value of optimisation trades do not reflect the underlying performance of the business because they are economically related to parts of the business which are not fair valued, for example Exploration & Production Assets or downstream demand. As such these trades are only reflected in business performance when the underlying transaction or asset impacts profit or loss. • Speculative trading is entered into for the purpose of making profit. Therefore all fair value movements associated with it are disclosed as part of underlying business performance. Our focus was on testing the correct classification of optimisation and speculative trades. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 2 and 7 in the financial statements.	For each of the material exceptional items we considered Directors' analyses of why they were determined to be exceptional and performed our own, independent assessment by looking, primarily, at the nature of the items. The detailed work we performed on the exceptional items relating to the impairment charges, which is the most significant item, is described on page 81. For certain re-measurements we audited the principles management use to determine whether a trade should be recognised as part of business performance or presented separately. We evaluated whether the agreed principles had been applied consistently by testing that a sample of the trades have been presented correctly as own-use or speculative trading. Based on the work performed we did not identify any material issues with the presentation, classification or disclosure of exceptional items and certain re-measurements.
Onerous contracts The Group enters into a number of significant and complex contracts, for example, forward gas purchase contracts and metering contracts. Macro-economic factors, such as forecast commodity price, can have a significant impact on the profitability of these contracts, and therefore the Directors make an assessment as to whether the impact of such factors has resulted in contracts becoming onerous. A new onerous contract provision of £70 million has been recognised for the Spalding power station tolling agreement subsequent to the recording of an impairment. The Directors' existing assessment of expected costs in relation to the Rijnmond tolling contract, European gas transportation contracts and Direct Energy wind farm power purchase agreements remains materially unchanged. Our focus on onerous contracts was assessing whether material onerous contracts have been identified and that the valuation of any provision is materially correct. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 3 and 21 in the financial statements.	We tested the identification and completeness of onerous contracts through discussions with management, examination of board minutes, obtaining and reading the new significant contracts during the year and testing management's assumptions for a sample of contracts. We tested the valuation of the onerous contract provisions by evaluating whether appropriate judgements and assumptions had been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract. The Spalding power station tolling agreement was identified as onerous as the contractual outflows exceed the forecast future economic benefit in the period to September 2021 due to the decline during 2015 in spark spread forecasts together with updated operating cost forecasts. We have evaluated the cash flow model used by management to value the contract and are satisfied with management's approach to modelling and the assumptions underpinning the cash flows.

Area of focus	How our audit addressed the area of focus
Downstream revenue recognition The accuracy of the recognition of energy services revenue within British Gas, Direct Energy and Bord Gáis and its presentation in the income statement is dependent on complex estimation methodologies/algorithms used to assess the amount of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. The specific risk over unread revenue is the accuracy of the estimation. Where an unread estimate is billed this gives the customer opportunity to challenge the amount which when applicable can lead to the correction of estimates. Where unread estimates are unbilled there are risks over accuracy, recoverability and therefore correct recognition in the income statement and balance sheet. Furthermore, migration issues arising from the implementation of a new billing system in British Gas Business in 2014 have resulted in the need for management to perform additional levels of review over revenue and debt including judgements over the level of provisioning. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 3 and 4 in the financial statements.	In order to test the accuracy of the unread billed and unbilled revenue at British Gas and Bord Gáis, we assessed the IT general controls, system application controls and management controls in relation to the revenue and billing systems. Our testing found that the IT general controls and system application controls were sufficient to enable us to place reliance on the controls for the year end audit. In Direct Energy our testing found that certain manual controls were sufficient to enable us to obtain some audit evidence from the operation of manual controls for the year-end audit. Given the relatively short time period between the end of the financial year and the audit, the majority of unbilled revenue as at 31 December remained unbilled and uncollected. We therefore focused our substantive testing on the manual processes over revenue recognition, assessing the appropriateness of the estimation methodologies and the level of subsequent true-ups to actual bills raised. We also tested the reconciliation of unbilled reports to the general ledger at the year end. Where manual adjustments were made to the unbilled revenue we challenged the basis of the adjustments made, the source of the data used and the consistency of the adjustments with prior years to confirm we were comfortable with the adjustments. In assessing the methodology used to derive the unbilled revenue at the balance sheet date and testing the performance of historical billing and collections, we did not identify any material issues with the recognition of unbilled revenue. With regard to the implementation of the new billing system in British Gas Business we increased our scope of work in order to assess the impact of the migration of customers to the new system, specifically on revenue, debt and debt provisioning. This included testing the revenue adjustments, recoverability of debt and additional procedures over the debt provision at year end. Based on our work we did not identify any material misstatements with downstream revenue recognition.
Pensions The Group has a net defined benefit pension liability of £119 million, consisting of a £6,642 million asset, offset by a £6,761 million liability. The assumptions used in valuing the pension liability are both judgemental and sensitive to change. For example, a 0.25% increase/decrease in the discount rate has a 6% impact on the scheme liabilities. As a result there is a risk that a small change in the judgements used will have a significant impact on the valuation of the pension liability. As such our area of focus was on the assumptions used in calculating the liability. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 3 and 22 in the financial statements.	We compared the discount and inflation rates used in the valuation of the pension liability to our internally developed benchmarks. We have an internally developed range of acceptable discount rates for valuing pension liabilities, which is based on our view of various economic indicators. While our range is, itself, subjective, the discount rate assumption lies in the middle of our range of expected assumptions and is reasonable for accounting purposes. Based on the work performed, we did not identify any material issues over the assumptions used in valuing the pension liability.
Going concern Under Article 94 of the Articles of Association ('Articles'), the Group's borrowings are currently restricted to the higher of £5 billion and three times its adjusted capital and reserves. Whilst preparing the Annual Report, the Group became aware that, predominantly due to the impairments noted above and the resulting reduction in capital and reserves, the Group's borrowing limit under the Articles would be restricted to £5 billion from the date of approval of these financial statements. There will therefore be a technical breach of Article 94. As a result of this, our focus was on the Directors' evaluation of the Group's liquidity position and availability of cash reserves over the period of the going concern assessment, including the scenario of restrictions continuing after the Company's AGM. Refer to pages 56 and 57 for details on the Audit Committee reviews and conclusions and notes 24 and S3 in the financial statements.	We assessed management's liquidity analysis and downside sensitivities, including the scenario of borrowing restrictions continuing after the Company's AGM. Based on the work performed which included assessing management's analysis above and review of legal advice, including discussion with external legal advisors and having considered the possible actions available to management, we did not identify any material issues in relation to the Company's and Group's assessment of going concern. We also evaluated the disclosures provided in the Annual Report in relation to going concern and we were satisfied that these are appropriate.

Independent Auditors' Report continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along three business lines being International Upstream, International Downstream and Centrica Storage, each made up of different business units. The Group financial statements are a consolidation of these business lines and comprise the Group's operating businesses and centralised functions.

Accordingly, based on size and risk characteristics, we performed a full scope audit of the financial information for the following business units: British Gas Business, British Gas Residential, Direct Energy, Centrica Energy Exploration & Production and Centrica Energy Midstream.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those business units to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Across the Group, the Group team involvement comprised of site visits, conference calls, review of component auditor work papers, attendance at component audit clearance meetings and other forms of communication as considered necessary. Members of the Group team are also directly involved in the component audits of British Gas and Centrica Energy. In addition, senior members of the Group audit team performed a number of site visits throughout the year to Direct Energy in Houston and the Exploration & Production business in Norway.

Taken together, the business units where we performed our audit work accounted for 94% of Group revenues and 77% of Group profit before tax. We also performed specific audit procedures on the business units not included in the scope of the audit where they contained material financial balances.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£78 million (2014: £101 million).
How we determined it	5% of 3-year average pre-tax profit adjusted for exceptional items and certain re-measurements.
Rationale for benchmark applied	The Group materiality benchmark has been calculated as 5% of profit from continuing operations, adjusted to exclude the effect of volatility on underlying performance from disclosed exceptional items and certain re-measurements. These items have impacted the Centrica income statement on a non-recurring basis and to a quantitatively material degree. To eliminate further volatility in trading performance, a 3-year average on the same benchmark was used in calculating the overall materiality.
Component materiality	For each business unit in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across business units was £10 million to £60 million. Certain business units were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2014: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 62, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information and compliance with applicable requirements

Companies Act 2006 opinion

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' and Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' and Corporate Governance Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' and Corporate Governance Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 62, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 56 and 57, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 62 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 62 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Independent Auditors' Report continued

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Directors' and Corporate Governance Report relating to ten further provisions of the Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement set out on page 62, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' and Corporate Governance Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Charles Bowman

(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 February 2016

Financial Statements

Group Income Statement

Year ended 31 December	Notes	2015 Business performance £m	2015 Exceptional items and certain re-measurements £m	2015 Results for the year £m	2014 Business performance £m	2014 Exceptional items and certain re-measurements £m	2014 Results for the year £m
Group revenue	4(b)	**27,971**	**–**	**27,971**	29,408	–	29,408
Cost of sales before exceptional items and certain re-measurements	5	**(23,734)**	**–**	**(23,734)**	(25,043)	–	(25,043)
Re-measurement of energy contracts	7	**–**	**116**	**116**	–	(1,134)	(1,134)
Cost of sales	5	**(23,734)**	**116**	**(23,618)**	(25,043)	(1,134)	(26,177)
Gross profit		**4,237**	**116**	**4,353**	4,365	(1,134)	3,231
Operating costs before exceptional items	5	**(3,039)**	**–**	**(3,039)**	(2,903)	–	(2,903)
Exceptional items – impairments	7	**–**	**(2,268)**	**(2,268)**	–	(1,938)	(1,938)
Exceptional items – onerous provisions	7	**–**	**(90)**	**(90)**	–	–	–
Exceptional items – gains on disposals	7	**–**	**–**	**–**	–	341	341
Operating costs	5	**(3,039)**	**(2,358)**	**(5,397)**	(2,903)	(1,597)	(4,500)
Share of profits of joint ventures and associates, net of interest and taxation	6, 7	**200**	**(13)**	**187**	106	26	132
Group operating loss	4(c)	**1,398**	**(2,255)**	**(857)**	1,568	(2,705)	(1,137)
Financing costs	8	**(334)**	**–**	**(334)**	(318)	–	(318)
Investment income	8	**55**	**–**	**55**	52	–	52
Net finance cost		**(279)**	**–**	**(279)**	(266)	–	(266)
Loss before taxation		**1,119**	**(2,255)**	**(1,136)**	1,302	(2,705)	(1,403)
Taxation on loss	7, 9	**(286)**	**538**	**252**	(375)	773	398
Loss for the year		**833**	**(1,717)**	**(884)**	927	(1,932)	(1,005)
Attributable to:							
Owners of the parent		**863**	**(1,610)**	**(747)**	903	(1,915)	(1,012)
Non-controlling interests		**(30)**	**(107)**	**(137)**	24	(17)	7

Earnings per ordinary share	Notes	2015 Pence	2014 Pence
Basic	10	**(14.9)**	(20.2)
Diluted	10	**(14.9)**	(20.2)
Interim dividend paid per ordinary share	11	**3.57**	5.10
Final dividend proposed per ordinary share	11	**8.43**	8.40

The notes on pages 92 to 168 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	Notes	**2015 £m**	2014 £m
Loss for the year		**(884)**	(1,005)
Other comprehensive income/(loss):			
Items that will be or have been recycled to the Group Income Statement:			
Gains on revaluation of available-for-sale securities, net of taxation	S4	**5**	4
Net gains/(losses) on cash flow hedges	S4	**20**	(44)
Transferred to income and expense on cash flow hedges	S4	**(12)**	46
Transferred to assets and liabilities on cash flow hedges	S4	**7**	6
Taxation on cash flow hedges	S4	**(6)**	(1)
		9	7
Exchange differences on translation of foreign operations		**(256)**	(165)
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	S4	**3**	(15)
		(239)	(169)
Items that will not be recycled to the Group Income Statement:			
Net actuarial losses on defined benefit pension schemes	S4	**(321)**	(83)
Exchange gain on translation of actuarial reserve	S4	**3**	–
Taxation on net actuarial losses on defined benefit pension schemes	S4	**50**	18
		(268)	(65)
Reversal of revaluation reserve, net of taxation and exchange differences	S4	**–**	(10)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	S4	**(8)**	21
Other comprehensive loss net of taxation		**(515)**	(223)
Total comprehensive loss for the year		**(1,399)**	(1,228)
Attributable to:			
Owners of the parent		**(1,227)**	(1,234)
Non-controlling interests	S10	**(172)**	6

Group Statement of Changes in Equity

	Share capital (note 25) £m	Share premium £m	Retained earnings £m	Other equity (note S4) £m	**Total £m**	Non-controlling interests (note S10) £m	**Total equity £m**
1 January 2014	321	931	4,255	(315)	5,192	65	5,257
Total comprehensive (loss)/income	–	–	(1,012)	(222)	(1,234)	6	(1,228)
Employee share schemes	–	–	–	71	71	–	71
Purchase of treasury shares	–	–	(2)	(420)	(422)	–	(422)
Cancellations of shares held in treasury	(10)	–	(549)	559	–	–	–
Investment by non-controlling interests	–	–	–	–	–	283	283
Distribution paid to non-controlling interests	–	–	–	–	–	(18)	(18)
Dividends paid to equity holders (note 11)	–	–	(867)	–	(867)	–	(867)
Taxation on share-based payments	–	–	–	(5)	(5)	–	(5)
31 December 2014	311	931	1,825	(332)	2,735	336	3,071
Total comprehensive loss	–	–	(747)	(480)	**(1,227)**	(172)	**(1,399)**
Employee share schemes	–	–	2	58	**60**	–	**60**
Scrip dividend	6	204	–	–	**210**	–	**210**
Dividends paid to equity holders (note 11)	–	–	(598)	–	**(598)**	–	**(598)**
Taxation on share-based payments	–	–	–	(2)	**(2)**	–	**(2)**
31 December 2015	**317**	**1,135**	**482**	**(756)**	**1,178**	**164**	**1,342**

The notes on pages 92 to 168 form part of these Financial Statements.

Group Balance Sheet

31 December	Notes	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment	13	**4,629**	6,377
Interests in joint ventures and associates	14	**1,839**	2,395
Other intangible assets	15	**1,775**	1,991
Goodwill	15	**2,049**	2,609
Deferred tax assets	16	**497**	354
Trade and other receivables	17	**61**	87
Derivative financial instruments	19	**440**	313
Retirement benefit assets	22(d)	**91**	185
Securities	24	**233**	263
		11,614	14,574
Current assets			
Trade and other receivables	17	**4,905**	6,226
Inventories	18	**395**	555
Derivative financial instruments	19	**936**	617
Current tax assets		**126**	88
Securities	24	**11**	11
Cash and cash equivalents	24	**860**	621
		7,233	8,118
Assets of disposal groups classified as held for sale	12(b)	**13**	–
		7,246	8,118
Total assets		**18,860**	22,692
Current liabilities			
Derivative financial instruments	19	**(1,460)**	(1,565)
Trade and other payables	20	**(5,034)**	(5,667)
Current tax liabilities		**(389)**	(348)
Provisions for other liabilities and charges	21	**(396)**	(395)
Financial liabilities	24	**(475)**	(1,635)
		(7,754)	(9,610)
Liabilities of disposal groups classified as held for sale	12(b)	**(46)**	–
		(7,800)	(9,610)
Non-current liabilities			
Deferred tax liabilities	16	**(98)**	(663)
Derivative financial instruments	19	**(508)**	(588)
Trade and other payables	20	**(70)**	(83)
Provisions for other liabilities and charges	21	**(2,839)**	(3,203)
Retirement benefit obligations	22(d)	**(210)**	(123)
Financial liabilities	24	**(5,993)**	(5,351)
		(9,718)	(10,011)
Total liabilities		**(17,518)**	(19,621)
Net assets		**1,342**	3,071
Share capital	25	**317**	311
Share premium		**1,135**	931
Retained earnings		**482**	1,825
Other equity	S4	**(756)**	(332)
Total shareholders' equity		**1,178**	2,735
Non-controlling interests	S10	**164**	336
Total shareholders' equity and non-controlling interests		**1,342**	3,071

The Financial Statements on pages 88 to 168, of which the notes on pages 92 to 168 form part, were approved and authorised for issue by the Board of Directors on 18 February 2016 and were signed below on its behalf by:

Iain Conn
Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Cash Flow Statement

Year ended 31 December	Notes	2015 £m	2014 £m
Group operating loss including share of results of joint ventures and associates		**(857)**	(1,137)
Less share of profit of joint ventures and associates, net of interest and taxation	6	**(187)**	(132)
Group operating loss before share of results of joint ventures and associates		**(1,044)**	(1,269)
Add back/(deduct):			
Depreciation, amortisation, write-downs and impairments		**3,482**	3,288
Profit on disposals		**(14)**	(372)
Decrease in provisions		**(2)**	(37)
Defined benefit pension service cost and contributions		**(131)**	(83)
Employee share scheme costs		**45**	39
Unrealised (gains)/losses arising from re-measurement of energy contracts		**(12)**	1,160
Operating cash flows before movements in working capital		**2,324**	2,726
Decrease in inventories		**138**	4
Decrease/(increase) in trade and other receivables		**769**	(631)
Decrease in trade and other payables		**(604)**	(50)
Operating cash flows before payments relating to taxes, interest and exceptional charges		**2,627**	2,049
Taxes paid	9(d)	**(349)**	(707)
Payments relating to exceptional charges		**(81)**	(125)
Net cash flow from operating activities		**2,197**	1,217
Purchase of businesses		**(79)**	(131)
Sale of businesses		**8**	658
Purchase of property, plant and equipment and intangible assets	4(f)	**(970)**	(1,456)
Sale of property, plant and equipment and intangible assets		**9**	17
Investments in joint ventures and associates		**(13)**	(26)
Dividends received from joint ventures and associates	14(a)	**180**	138
Repayments of loans to, and disposal of investments in, joint ventures and associates		**190**	109
Interest received		**38**	35
Sale of securities	24(c)	**26**	5
Net cash flow from investing activities		**(611)**	(651)
Issue and surrender of ordinary share capital for share awards		**28**	32
Payments for own shares	S4	**(11)**	(7)
Purchase of treasury shares under share repurchase programme		**–**	(422)
Investment by non-controlling interests	S10	**–**	119
Distribution to non-controlling interests	S10	**–**	(18)
Financing interest paid		**(311)**	(296)
Repayment of borrowings and finance leases	24(c)	**(1,650)**	(518)
Cash received from borrowings, net of linked deposit	24(c)	**1,000**	1,311
Equity dividends paid		**(387)**	(864)
Net cash flow from financing activities		**(1,331)**	(663)
Net increase/(decrease) in cash and cash equivalents		**255**	(97)
Cash and cash equivalents at 1 January		**621**	719
Effect of foreign exchange rate changes		**(16)**	(1)
Cash and cash equivalents at 31 December		**860**	621
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	24(c)	**860**	621

The notes on pages 92 to 168 form part of these Financial Statements.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the consolidated Financial Statements.

The notes to these Financial Statements focus on areas that we feel are key to understanding our business. Additional information that we are required to disclose by accounting standards or regulation is disclosed in the Supplementary Information (notes S1 to S10).

In addition, for clarity, each note begins with a simple introduction outlining its purpose.

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

This section details new accounting standards, amendments and interpretations, whether these are effective in 2015 or later years, and if and how these are expected to impact the financial position and performance of the Group.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the Supplementary Information (note S2). Unless otherwise stated, these policies have been consistently applied to the years presented.

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

The consolidated Financial Statements have been prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition, and the assets of the Group's defined benefit pension schemes that have been measured at fair value and the liabilities of the Group's pension schemes that have been measured using the projected unit credit valuation method. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

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

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

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

The Group has not yet applied the following standards and amendments as these are not yet effective in the consolidated Group Financial Statements and remain subject to endorsement by the EU:

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

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

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

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

The amendment to IFRS 11 in relation to acquisitions of interests in joint operations, which will be effective in the 2016 consolidated Group Financial Statements, clarifies that an acquisition of a joint operation that meets the definition of a business is accounted for in accordance with IFRS 3: 'Business combinations'. This will lead to a change to the Group's current accounting policy for this type of acquisition. However, the amendment is only applicable prospectively for acquisitions on or after 1 January 2016 and therefore the accounting of acquisitions prior to this date will not be restated.

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

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

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

- the identification of performance obligations within our contractual arrangements with customers for example 'standing ready type obligations' on energy supply contracts versus rights granted ('options') to customers to be provided goods or services (energy) in the future (for example buyer's nominations rights related to Upstream sales contracts or residential and business customers rights to use energy in Downstream energy supply contracts);

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

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

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

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

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

This section sets out the Group's specific accounting measures applied in the preparation of the consolidated Financial Statements. These measures enable the users of the accounts to understand the Group's underlying and statutory business performance separately.

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items; and
- certain re-measurements;

but including:

- the Group's share of the results from joint ventures and associates before interest and taxation.

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements. Note 4 also details an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory result for the year. Adjusted operating profit after taxation is defined as segment operating profit after taxation, before exceptional items and certain re-measurements. This includes the operating results of equity-accounted interests, net of associated taxation, before interest and associated taxation.

Adjusted earnings is defined as earnings before:

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

A reconciliation of earnings is provided in note 10.

Restatement of adjusted profit measures

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

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

Year ended 31 December	Notes impacted	2015 £m	2014 £m
Centrica Energy – Gas adjusted operating profit	4(c)	**5**	(31)
Centrica Energy – Power adjusted operating profit	4(c)	**(57)**	(58)
Centrica Energy – Gas adjusted operating profit after taxation	4(c)	**1**	(12)
Centrica Energy – Power adjusted operating profit after taxation	4(c)	**(32)**	(47)
Centrica Energy – Power share of results of joint ventures and associates before interest and taxation	4(d)	**(57)**	(58)
Centrica Energy – Gas depreciation and impairment of property, plant and equipment	4(d)	**5**	(31)
Share of adjusted results of joint ventures and associates	6(b)	**(57)**	(58)
Adjusted earnings	10	**(31)**	(59)
Earnings per ordinary share		**Pence**	Pence
Earnings – adjusted basic	10	**(0.6)**	(1.2)
Earnings – adjusted diluted	10	**(0.6)**	(1.2)

Notes to the Financial Statements

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide readers with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported in a different column in the Group Income Statement.

The Group is an integrated energy business. This means that it utilises its knowledge and experience across the gas and power (and related commodity) value chains to make profits across the core markets in which it operates. As part of this strategy, the Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers (downstream demand). These trades are designed to reduce the risk of holding such assets, contracts or downstream demand and are subject to strict risk limits and controls.

Primarily because some of these trades include terms that permit net settlement (they are prohibited from being designated as 'own use'), the rules within IAS 39: 'Financial instruments: recognition and measurement' require them to be individually fair valued. Fair value movements on these commodity derivative trades do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. Therefore, these certain re-measurements are reported separately and are subsequently reflected in business performance when the underlying transaction or asset impacts profit or loss.

The arrangements discussed above and reflected as certain re-measurements are all managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the business performance column (in the results before certain re-measurements).

Exceptional items are those items that are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

This section sets out the key areas of judgement and estimation that have the most significant effect on the amounts recognised in the consolidated Financial Statements.

(a) Critical judgements in applying the Group's accounting policies

Such key judgements include the following:

- the presentation of selected items as exceptional (see notes 2 and 7);
- the use of adjusted profit and adjusted earnings per share measures (see notes 2, 4 and 10); and
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements (see notes 2, 7 and 19).

In addition, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Group's Financial Statements:

Wind farm disposals

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

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

Accordingly, the Directors have judged that the partial disposals of equity interests constituted a loss of control as the Group was no longer able to exercise control over the relevant activities or operating and financial policies of these companies. Therefore, the remaining investments are equity accounted as investments in joint ventures (see notes 6 and 14) in accordance with IFRS 11 and IAS 28 (Revised (2011)): 'Investments in joint ventures and associates'.

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

Leases – third-party power station tolling arrangements

The Group has two long-term power station tolling contracts considered to be leases: (i) Spalding in the UK and (ii) Rijnmond in the Netherlands. The arrangements provide Centrica with the right to nominate 100% of the plant capacity for the duration of the contracts in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. The Directors have determined that the arrangement should be accounted for as a finance lease, as the lease term was judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement amounted to substantially all of the fair value of the power station at that time.

Details of the interest charges, finance lease asset and finance lease payable are included in notes 8, 13 and 24 respectively.

The Rijnmond contract runs until 2030 and Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have determined that the arrangement should be accounted for as an operating lease, as the lease term was not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement did not amount to substantially all of the fair value of the power station at that time. Details of the operating lease commitments are included in note 23.

Business combinations and asset acquisitions

Business combinations and acquisitions of associates and joint ventures require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

As a result of the nature of fair value assessments in the energy industry, this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

During the year the Group has made two significant acquisitions: AlertMe and Panoramic Power. These acquisitions have been accounted for as business combinations as set out in note 12(a).

Consolidation of the CQ Energy Canada Partnership
The Suncor upstream acquisition in 2013 involved the formation of the CQ Energy Canada Partnership (CQECP) to acquire Suncor Energy's North American oil and gas assets. CQECP is owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provides the Group with the ability to control the business plan and budgets and consequently the general operation of the assets. Accordingly, this arrangement has been assessed under IFRS 10: 'Consolidated financial statements' and the conclusion has been reached that the Group has power over the relevant activities of CQECP. This entity has been fully consolidated into the Group's Financial Statements and QPI's ownership share is represented as a non-controlling interest.

Energy Company Obligation
The Energy Company Obligation (ECO) order requires UK-licensed energy suppliers to improve the energy efficiency of domestic households from 1 January 2013. Targets are set in proportion to the size of historic customer bases. ECO phase 1 had a delivery date of 31 March 2015. ECO phase 2 must be delivered by 31 March 2017. The Group continues to judge that it is not legally obligated by this order until 31 March 2017 for ECO phase 2. Accordingly, the costs of delivery are recognised as incurred, when cash is spent or unilateral commitments made, resulting in obligations that cannot be avoided.

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

Metering contracts
The Department of Energy and Climate Change (DECC) has modified the UK gas and electricity supply licences requiring all domestic premises to be fitted with compliant smart meters for measuring energy consumption by 31 December 2020. The Group has a number of existing rental contracts for non-compliant meters that include penalty charges if these meters are removed from use before the end of their deemed useful lives. The Group considers that these contracts are not onerous until the meters have been physically removed from use and, therefore, only recognises a provision for penalty charges at this point.

During 2015 as part of the smart meter roll-out, the Group has renewed meter rental arrangements with third-parties. The Group has assessed that these are not leases because it does not have the right to physically or operationally control the smart meters and other parties also take a significant amount of the output from the assets.

(b) Key sources of estimation uncertainty

Revenue recognition – unread gas and electricity meters
Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits that will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Industry reconciliation process – cost of sales
Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of fields (including storage facility assets) is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2066, with the majority of the costs expected to be paid between 2020 and 2040.

Significant judgements and estimates are also made about the costs of decommissioning nuclear power stations and the costs of waste management and spent fuel. These estimates impact the carrying value of our Nuclear investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note S2.

Gas and liquids reserves
The volume of proven and probable (2P) gas and liquids reserves is an estimate that affects the unit of production method of depreciating producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition is described on page 181.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Notes to the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Quoted market prices considered for valuation purposes are the bid price for assets held and/or liabilities to be issued, or the offer price for assets to be acquired and/or liabilities held, although the mid-market price or another pricing convention may be used as a practical expedient (where typically used by other market participants). More detail on the assumptions used in determining fair valuations of energy derivatives is provided in note S6.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 7. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream gas and oil assets, power generation assets, storage facility assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill.

Upstream gas and oil assets

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

Further details of the assumptions used in determining the recoverable amounts and the impairments booked during the year are provided in note 7.

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. Further details of the impairments booked during the year are provided in note 7.

Storage facility assets

The recoverable amount of our operational storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price spreads and shorter-term price volatilities and the value from extracting cushion gas at the end of the field life less any related capital and operating expenditure.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. Further details of the impairments booked during the year are provided in note 7.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 7 and 15.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions is set out in note 17. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to movements in the provisions and therefore impact the Group Income Statement. Following issues arising from the implementation of a new billing system in British Gas Business in 2014, management has exercised additional judgement regarding the appropriate level of provision for these trade receivables. Changes in these judgements could also lead to movements in the provisions and therefore impact the Group Income Statement.

Pensions and other post employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post employment benefits, on which further detail is provided in note 22.

Provisions for onerous contracts

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

Rijnmond power station operating lease

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

Spalding power station onerous contract provision

During 2015, a new onerous contract provision has been calculated by taking the unavoidable costs that will be incurred under the contract, excluding those that are treated as minimum lease payments and included within the Group's finance lease liability, less any estimated revenue.

European gas transportation capacity contracts

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

Direct Energy wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates.

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review (pages 28 to 33).

(a) Segmental structure

The types of products and services from which each reportable segment derived its revenues during the year are detailed below:

Segment	Description
International Downstream	
British Gas:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK.
Residential services	Installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
Direct Energy:	
Residential energy supply	The supply of gas and electricity to residential customers in North America.
Residential and business services	Installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment, water heaters, solar power generating equipment and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Business energy supply	(i) The supply of gas, electricity and energy management solutions to commercial and industrial customers in North America; (ii) power generation; and (iii) procurement and trading activities in the North American wholesale energy markets.
Bord Gáis Energy	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers; and (ii) power generation in the Republic of Ireland.
International Upstream	
Centrica Energy:	
Gas	Production, processing, trading and optimisation of gas and oil and the development of new fields to grow reserves.
Power	Generation, trading and optimisation of power from thermal, nuclear and wind sources.
Centrica Storage	Gas storage in the UK.

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties.

Year ended 31 December	2015 Gross segment revenue £m	2015 Less inter-segment revenue £m	2015 Group revenue £m	2014 Gross segment revenue £m	2014 Less inter-segment revenue £m	2014 Group revenue £m
International Downstream						
Residential energy supply	**8,249**	**(7)**	**8,242**	8,328	(3)	8,325
Residential services	**1,734**	**(136)**	**1,598**	1,658	(156)	1,502
Business energy supply and services	**2,463**	**–**	**2,463**	2,981	(47)	2,934
British Gas	**12,446**	**(143)**	**12,303**	12,967	(206)	12,761
Residential energy supply	**2,175**	**–**	**2,175**	2,571	–	2,571
Residential and business services	**480**	**–**	**480**	523	–	523
Business energy supply	**7,932**	**–**	**7,932**	8,744	(6)	8,738
Direct Energy	**10,587**	**–**	**10,587**	11,838	(6)	11,832
Bord Gáis Energy	**733**	**–**	**733**	391	–	391
International Upstream						
Gas	**3,525**	**(218)**	**3,307**	3,644	(326)	3,318
Power	**1,190**	**(255)**	**935**	1,347	(343)	1,004
Centrica Energy	**4,715**	**(473)**	**4,242**	4,991	(669)	4,322
Centrica Storage	**156**	**(50)**	**106**	149	(47)	102
	28,637	**(666)**	**27,971**	30,336	(928)	29,408

The Group does not monitor and manage performance by geographic territory, but we provide below an analysis of revenue and certain non-current assets by geography.

Year ended 31 December	Revenue (based on location of customer) 2015 £m	Revenue (based on location of customer) 2014 £m	Non-current assets (based on location of assets) (i) 2015 £m	Non-current assets (based on location of assets) (i) 2014 £m
UK	**15,654**	15,880	**6,281**	8,132
North America	**10,728**	11,996	**2,827**	3,421
Norway	**297**	478	**1,005**	1,564
Rest of the world	**1,292**	1,054	**179**	255
	27,971	29,408	**10,292**	13,372

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

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes results of equity-accounted interests before interest and taxation.

This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Year ended 31 December	Adjusted operating profit/(loss) 2015 £m	Adjusted operating profit/(loss) 2014 (restated) (i) £m	Adjusted operating profit/(loss) after taxation (ii) 2015 £m	Adjusted operating profit/(loss) after taxation (ii) 2014 (restated) (i) £m
International Downstream				
Residential energy supply	**574**	439	**461**	344
Residential services	**257**	270	**207**	212
Business energy supply and services	**(22)**	114	**(18)**	91
British Gas	**809**	823	**650**	647
Residential energy supply	**111**	90	**58**	62
Residential and business services	**(34)**	28	**(22)**	20
Business energy supply	**251**	32	**151**	17
Direct Energy	**328**	150	**187**	99
Bord Gáis Energy	**30**	7	**24**	3
International Upstream				
Gas	**153**	575	**45**	290
Power (iii)	**102**	73	**95**	111
Centrica Energy	**255**	648	**140**	401
Centrica Storage	**37**	29	**25**	21
	1,459	1,657	**1,026**	1,171
Share of joint ventures'/associates' interest and taxation	**(61)**	(89)		
Operating profit before exceptional items and certain re-measurements	**1,398**	1,568		
Exceptional items (note 7)	**(2,358)**	(1,597)		
Certain re-measurements included within gross profit (note 7)	**116**	(1,134)		
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**(13)**	26		
Operating loss after exceptional items and certain re-measurements	**(857)**	(1,137)		

Year ended 31 December	2015 £m	2014 (restated) (i) £m
Adjusted operating profit after taxation (ii)	**1,026**	1,171
Impact of changes to UK corporation tax rates (note 9) (iv)	**46**	(2)
Corporate and other taxation, and interest (net of taxation) (v)	**(239)**	(242)
Business performance profit for the year	**833**	927
Exceptional items and certain re-measurements (net of taxation) (note 7)	**(1,717)**	(1,932)
Statutory loss for the year	**(884)**	(1,005)

(i) Adjusted operating profit for 2014 has been restated following the Board's decision to include the depreciation of fair value uplifts of fixed assets acquired on Strategic Investments in the definition of adjusted operating profit. See note 2 for further information.
(ii) Segment operating profit after taxation includes loss of £27 million (2014: profit of £28 million) attributable to non-controlling interests.
(iii) Power adjusted operating profit after taxation for 2014 includes a one-off deferred tax benefit of £44 million following a legal entity reorganisation.
(iv) Includes £19 million (2014: nil) relating to equity accounted interests.
(v) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation 2015 £m	2014 (restated) (i) £m	Depreciation and impairments of property, plant and equipment 2015 £m	2014 (restated) (i) £m	Amortisation, write-downs and impairments of intangibles 2015 £m	2014 £m
International Downstream						
Residential energy supply	**(1)**	(1)	**(26)**	(17)	**(83)**	(57)
Residential services	**–**	–	**(26)**	(27)	**(9)**	(7)
Business energy supply and services	**–**	–	**(3)**	(2)	**(11)**	(8)
British Gas	**(1)**	(1)	**(55)**	(46)	**(103)**	(72)
Residential energy supply	**–**	–	**(2)**	(1)	**(34)**	(23)
Residential and business services	**–**	–	**(3)**	(3)	**(8)**	(7)
Business energy supply	**–**	–	**(1)**	(1)	**(47)**	(77)
Direct Energy	**–**	–	**(6)**	(5)	**(89)**	(107)
Bord Gáis Energy	**–**	–	**(1)**	(1)	**(6)**	(3)
International Upstream						
Gas	**–**	–	**(753)**	(840)	**(92)**	(154)
Power	**262**	196	**(34)**	(55)	**(1)**	(2)
Centrica Energy	**262**	196	**(787)**	(895)	**(93)**	(156)
Centrica Storage	**–**	–	**(33)**	(34)	**(1)**	–
Other (ii)	**–**	–	**(11)**	(12)	**(13)**	(15)
	261	195	**(893)**	(993)	**(305)**	(353)

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

Impairment of property, plant and equipment

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

Write-downs of intangible assets

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

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

(e) Average capital employed

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

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

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

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

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

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

(f) Capital expenditure

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

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

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

Notes to the Financial Statements

5. COSTS OF OPERATIONS

This section details the types of costs the Group incurs and the number of employees in each of our operations.

(a) Analysis of costs by nature

Year ended 31 December	2015 Cost of sales £m	2015 Operating costs £m	2015 Total costs £m	2014 Cost of sales (restated) (i) £m	2014 Operating costs £m	2014 Total costs (restated) (i) £m
Transportation, distribution and metering costs	(4,737)	–	(4,737)	(4,347)	–	(4,347)
Commodity costs	(15,239)	–	(15,239)	(16,746)	–	(16,746)
Depreciation, amortisation, impairments and write-downs	(841)	(357)	(1,198)	(957)	(392)	(1,349)
Employee costs	(761)	(1,310)	(2,071)	(709)	(1,218)	(1,927)
Impairment of trade receivables (note 17)	–	(259)	(259)	–	(240)	(240)
Other direct costs relating to the upstream businesses	(722)	(162)	(884)	(748)	(108)	(856)
Other direct costs relating to the downstream businesses	(1,434)	(951)	(2,385)	(1,536)	(945)	(2,481)
Total costs before exceptional items and certain re-measurements	**(23,734)**	**(3,039)**	**(26,773)**	(25,043)	(2,903)	(27,946)
Exceptional items and certain re-measurements (note 7)	116	(2,358)	(2,242)	(1,134)	(1,597)	(2,731)
Total costs	**(23,618)**	**(5,397)**	**(29,015)**	(26,177)	(4,500)	(30,677)

(i) Items within 2014 cost of sales have been reclassified in order to ensure consistency across the Group.

(b) Employee costs (i)

Year ended 31 December	2015 £m	2014 £m
Wages and salaries	(1,768)	(1,622)
Social security costs	(155)	(145)
Pension and other post employment benefits costs	(158)	(167)
Share scheme costs (note S4)	(45)	(39)
	(2,126)	(1,973)
Capitalised employee costs	55	46
Employee costs recognised in the Group Income Statement	**(2,071)**	(1,927)

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 63 to 79 form part of these Financial Statements. Details of the remuneration of key management personnel are given in note S8.

(c) Average number of employees during the year

Year ended 31 December	2015 Number	2014 Number
British Gas	29,864	28,814
Direct Energy	6,155	5,980
Bord Gáis Energy (i)	306	151
Centrica Energy	2,231	2,280
Centrica Storage	292	305
	38,848	37,530

(i) Average employee numbers shown are based on 12-month averages. Average number of employees of Bord Gáis Energy in 2014 for the period from acquisition to the end of 2014 is 280.

Notes to the Financial Statements

6. SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

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

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

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

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

(b) Reconciliation of share of results of joint ventures and associates to share of adjusted results of joint ventures and associates

Year ended 31 December	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2015 Total £m**	2014 (restated) (i) Total £m
Share of post-taxation results of joint ventures and associates	6	182	(1)	**187**	132
Certain re-measurements (net of taxation)	–	13	–	**13**	(26)
Interest paid	41	12	–	**53**	62
Taxation (excluding taxation on certain re-measurements)	(13)	21	–	**8**	27
Share of adjusted results of joint ventures and associates	**34**	**228**	**(1)**	**261**	195

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

Further information on the Group's investments in joint ventures and associates is provided in notes 14 and S10.

Notes to the Financial Statements

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

Exceptional items are those items that are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs.

(a) Exceptional items

Year ended 31 December	2015 £m	2014 £m
Impairment of Centrica Energy exploration and production assets (i)	(1,865)	(1,189)
Impairment of UK power generation assets and provisions for onerous power procurement contracts (ii)	(121)	(535)
Impairment of Nuclear investment (iii)	(372)	(214)
Gain on disposal of Texas gas-fired power stations	–	219
Gain on disposal of Ontario home services business	–	122
Exceptional items included within Group operating loss	**(2,358)**	(1,597)
Taxation on exceptional items (note 9)	477	436
Impairment of Centrica Energy exploration and production deferred tax assets (note 9) (iv)	(81)	–
Effect of change in UK tax rates (note 9) (v)	116	–
Net exceptional items after taxation	**(1,846)**	(1,161)

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

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

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

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

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

Certain re-measurements are the fair value movements on energy contracts entered into to meet the future needs of our customers or to sell the energy produced from our upstream assets. These contracts are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued, and are therefore separately identified in the current period and reflected in business performance in future periods when the underlying transaction or asset impacts the Group Income Statement.

(b) Certain re-measurements

Year ended 31 December	2015 £m	2014 £m
Certain re-measurements recognised in relation to energy contracts (note 2):		
Net gains/(losses) arising on delivery of contracts	973	(63)
Net losses arising on market price movements and new contracts	(857)	(1,071)
Net re-measurements included within gross profit	**116**	(1,134)
Net (losses)/gains arising on re-measurement of associates' energy contracts (net of taxation)	(13)	26
Net re-measurements included within Group operating loss	**103**	(1,108)
Taxation on certain re-measurements (note 9) (i)	26	337
Net re-measurements after taxation	**129**	(771)

(i) Includes £20 million gain (2014: nil) due to the effect of change in UK tax rates.

The Group is generally a net buyer of commodity; procuring gas and power for our customers. Following significant decreases in commodity prices, net losses arising on market price movements and new contracts of £857 million (2014: £1,071 million) have been recorded.

(c) Impairment accounting policy, process and sensitivities

The Group reviews the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration assets – see note S2) annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Interests in joint ventures and associates are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of VIU and FVLCD.

Notes to the Financial Statements

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

VIU calculations have been used to determine recoverable amounts for all CGUs that include goodwill and indefinite-lived intangible asset balances with the exception of the impairment tests for the Centrica Energy – Upstream gas and oil CGUs, where FVLCD has been used. This methodology is deemed to be more appropriate for these CGUs as it is based on the post-tax cash flows arising from the underlying assets and is consistent with the approach taken by management to evaluate the economic value of the underlying assets. Subsequently, the specific, underlying Upstream gas and oil PP&E assets and, in addition, the Group's associate investment in Nuclear and the Storage PP&E assets have also used the FVLCD impairment methodology. UK power generation assets have used the VIU impairment methodology. Further details of the approach and assumptions used in the VIU calculations are provided in note S2.

FVLCD discount rate and cash-flow assumptions

Centrica Energy – Gas – Upstream gas and oil production

An impairment charge of £1,865 million (2014: £1,189 million) has been recorded within exceptional items for Centrica Energy exploration and production assets. The associated recoverable amounts (net of decommissioning costs) of £1,049 million are categorised within Level 3 of the fair value hierarchy. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 9% (2014: 9%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Centrica Energy – Gas goodwill is particularly sensitive to the price assumptions made in the impairment calculations. To illustrate this, the price assumptions for gas and oil have been varied by +/–10%. Changes in price generate different production profiles and in some cases the date that an asset ceases production. This has been considered in the sensitivity analysis. Otherwise, all other operating costs, life of field capital expenditure and abandonment expenditure assumptions remain unchanged. For exploration and production assets, an increase in gas and oil prices of 10% would reverse £327 million (2014: £142 million) of post-tax impairment charges of the underlying exploration and production assets. A reduction of 10% would give rise to further post-tax impairments of the underlying exploration and production assets of £245 million (2014: £254 million) and a further post-tax impairment of goodwill of £238 million (2014: £251 million) in the UK/Norway/Netherlands CGU.

Centrica Energy – Power – Nuclear

An impairment charge of £372 million (2014: £214 million) has been recorded within exceptional items for the Group's associate investment in Nuclear. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the investment, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of the underlying nuclear power stations, planned and unplanned outage assumptions, operating cost assumptions and forward prices for power and forecast capacity market auction prices. Where forward market prices are not available, prices are determined based on internal model inputs. Note S6 provides additional detail of the active period of each of the commodity markets in which the Group operates. Post-tax cash flows used in the FVLCD calculations for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8% (2014: 8%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations described in note S2, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of the Group's investment in Nuclear, which is categorised within Level 3 of the fair value hierarchy, is particularly sensitive to assumptions/variations in the power price. To illustrate this, sensitivities were performed at the year end to vary the power price assumptions in the Group's internal valuation model by +/–10%. An increase in power prices of 10%, assuming all other assumptions remain constant, would result in the reversal of the impairment of £372 million (2014: £214 million) recorded at the year end and would potentially reverse £81 million of the prior year impairment (2014: provide headroom of £310 million). A reduction of 10% would give rise to a further impairment charge of £436 million (2014: £522 million).

Storage

No impairment charge has been recognised for the Group's gas storage assets (2014: nil). However, there is limited headroom on the current impairment test. The impairment test is particularly sensitive to assumptions/variations in seasonal gas price spreads and to the resolution of the limitation of the maximum operating pressure of the storage asset. To illustrate the impact of price on the impairment analysis, sensitivities were performed at the year end to vary the gas spreads by +/-10%. An increase in gas spreads of 10%, assuming all other assumptions remain constant, increases the headroom to £116 million. A reduction of 10% would give rise to an impairment of £76 million.

Notes to the Financial Statements

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

A change in the assumptions of the timing and extent of the return to maximum operating pressure could also significantly impact the impairment calculation and could result in a significant impairment in certain adverse scenarios. The current value of the Group's gas storage fixed assets is £511 million (£260 million, net of the decommissioning provision and deferred tax).

VIU discount rate and cash-flow assumptions

Centrica Energy – Power – Upstream Power

An impairment charge of £31 million (2014: £535 million) has been recorded within exceptional items for the UK gas-fired power stations with a further £70 million charge for an onerous power procurement contract provision. Since the unavoidable costs under this tolling contract exceed the recoverable amounts, the remaining fixed asset has been impaired. In 2014, the recoverable amounts were determined using VIU calculations, with future cash flows discounted using a pre-tax nominal discount rate of 7.4%. Cash inflows were based on forecast production profiles, forward prices for power, gas and carbon and forecast capacity market auction prices. Where forward market prices were not available, prices were determined based on internal model inputs.

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

8. NET FINANCE COST

Financing costs mainly comprise interest on bonds, bank debt and commercial paper, the results of hedging activities used to manage foreign exchange and interest rate movements on the Group's borrowings, and notional interest arising on discounting of decommissioning provisions. An element of financing cost is capitalised on qualifying projects.

Investment income predominantly includes interest received on short-term investments in money market funds, bank deposits, government bonds and notional interest on pensions.

Year ended 31 December	Financing costs £m	Investment income £m	2015 Total £m	Financing costs £m	Investment income £m	2014 Total £m
Cost of servicing net debt						
Interest income	**–**	**50**	**50**	–	46	46
Interest cost on bonds, bank loans and overdrafts (i)	**(289)**	**–**	**(289)**	(257)	–	(257)
Interest cost on finance leases	**(15)**	**–**	**(15)**	(16)	–	(16)
	(304)	**50**	**(254)**	(273)	46	(227)
Net losses on revaluation (ii)	**(2)**	**–**	**(2)**	(14)	–	(14)
Notional interest arising from discounting and other interest	**(76)**	**5**	**(71)**	(81)	6	(75)
	(382)	**55**	**(327)**	(368)	52	(316)
Capitalised borrowing costs (iii)	**48**	**–**	**48**	50	–	50
(Cost)/income	**(334)**	**55**	**(279)**	(318)	52	(266)

(i) During 2015 the Group increased its outstanding bond debt principal by €750 million and £450 million, and decreased it by ¥30 billion, €100 million, $70 million and £51 million. See note 24(d).
(ii) Includes gains and losses on fair value hedges, movements in fair value of other derivatives primarily used to hedge foreign exchange exposure associated with inter-company loans, and foreign currency gains and losses on the translation of inter-company loans.
(iii) Borrowing costs have been capitalised using an average rate of 4.2% (2014: 4.0%). Capitalised interest has attracted tax deductions totalling £14 million (2014: £13 million), with deferred tax liabilities being set up for the same amounts.

Notes to the Financial Statements

9. TAXATION

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits. This tax charge excludes taxation on the Group's share of results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

(a) Analysis of tax charge

			2015			2014
Year ended 31 December	**Business performance £m**	**Exceptional items and certain re-measurements £m**	**Results for the year £m**	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Current tax						
UK corporation tax	**(233)**	**(75)**	**(308)**	(186)	–	(186)
UK petroleum revenue tax	**(30)**	**–**	**(30)**	(53)	–	(53)
Non-UK tax (i)	**(206)**	**–**	**(206)**	(234)	(130)	(364)
Adjustments in respect of prior years – UK	**198**	**–**	**198**	86	–	86
Adjustments in respect of prior years – non-UK	**(24)**	**–**	**(24)**	2	–	2
Total current tax	**(295)**	**(75)**	**(370)**	(385)	(130)	(515)
Deferred tax						
Origination and reversal of temporary differences – UK	**91**	**274**	**365**	109	538	647
UK petroleum revenue tax	**46**	**11**	**57**	(7)	8	1
Origination and reversal of temporary differences – non-UK	**24**	**192**	**216**	(6)	374	368
Change in tax rates (ii)	**27**	**136**	**163**	(2)	(17)	(19)
Adjustments in respect of prior years – UK	**(169)**	**–**	**(169)**	(72)	–	(72)
Adjustments in respect of prior years – non-UK	**(10)**	**–**	**(10)**	(12)	–	(12)
Total deferred tax	**9**	**613**	**622**	10	903	913
Total tax on loss (iii)	**(286)**	**538**	**252**	(375)	773	398

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

Tax on items taken directly to equity is disclosed in note S4. The Group earns the majority of its profits in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which from 1 April 2015 was 20% (2014: 21%). Upstream oil and gas production activities are taxed at a UK corporation tax rate of 30% (2014: 30%) plus a supplementary charge of 20% (2014: 32%) to give an overall rate of 50% (2014: 62%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 50% (2014: 50%) which is deductible against corporation tax, giving an overall effective rate of 75% (2014: 81%). Norwegian upstream profits are taxed at the standard rate of 27% (2014: 27%) plus a special tax of 51% (2014: 51%) resulting in an aggregate tax rate of 78% (2014: 78%). Profits earned in the US are taxed at a Federal rate of 35% (2014: 35%) together with state taxes at various rates dependent on the state. Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

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

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

Notes to the Financial Statements

9. TAXATION

(b) Factors affecting the tax charge

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows:

			2015			2014
Year ended 31 December	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Loss before tax	**1,119**	**(2,255)**	**(1,136)**	1,302	(2,705)	(1,403)
Less: share of profits in joint ventures and associates, net of interest and taxation	**(200)**	**13**	**(187)**	(106)	(26)	(132)
Group loss before tax	**919**	**(2,242)**	**(1,323)**	1,196	(2,731)	(1,535)
Tax on loss at standard UK corporation tax rate of 20.25% (2014: 21.5%)	**(186)**	**454**	**268**	(257)	587	330
Effects of:						
Net expenses not deductible for tax purposes	**(103)**	**(187)**	**(290)**	(27)	(219)	(246)
Goodwill and investment impairments not deductible for tax purposes	**–**	**(199)**	**(199)**	–	–	–
Additional charges applicable to upstream profits	**23**	**347**	**370**	(59)	299	240
UK petroleum revenue tax rates	**8**	**5**	**13**	(23)	3	(20)
Non-UK tax rates (i)	**(45)**	**78**	**33**	(14)	124	110
Movement in unrecognised deferred tax assets	**(5)**	**(96)**	**(101)**	3	(4)	(1)
Changes to tax rates (ii)	**27**	**136**	**163**	(2)	(17)	(19)
Adjustments in respect of prior years	**(5)**	**–**	**(5)**	4	–	4
Taxation on loss for the year	**(286)**	**538**	**252**	(375)	773	398
Less: movement in deferred tax	**(9)**	**(613)**	**(622)**	(10)	(903)	(913)
Total current tax	**(295)**	**(75)**	**(370)**	(385)	(130)	(515)

(i) Excludes additional non-UK tax applicable to upstream profits.
(ii) Changes to tax rates on exceptional items and certain re-measurements includes a petroleum revenue tax charge of £33 million (2014: nil).

(c) Factors that may affect future tax charges

The Group's effective tax rates are impacted by changes to the mix of activities and production across the territories in which it operates. Effective tax rates may also fluctuate where profits and losses cannot be offset for tax purposes.

The Group's UK profits earned away from gas and oil production will benefit from reduced rates of corporation tax in 2017 and beyond (19% from 1 April 2017 and 18% from 1 April 2020). UK gas and oil production profits will benefit from a 15 percentage point reduction to PRT from 1 January 2016.

Profits from oil and gas production in the UK continue to be taxed at rates above the UK statutory rate and PRT will continue to be applied to certain upstream profits. The PRT borne is expected to decrease as production activity in the relevant fields declines over time.

Income earned in territories outside the UK, notably in the US and Norway, is generally subject to higher effective rates of tax than the current UK statutory rate.

In the medium term, the Group's effective tax rate is expected to remain above the UK statutory rate.

Notes to the Financial Statements

9. TAXATION

(d) Relationship between current tax charge and taxes paid

Year ended 31 December	UK £m	Non-UK £m	2015 £m	UK £m	Non-UK £m	2014 £m
Current tax charge:						
Corporation tax	110	230	**340**	100	362	462
Petroleum revenue tax	30	–	**30**	53	–	53
	140	**230**	**370**	153	362	515
Taxes paid:						
Corporation tax	130	228	**358**	116	435	551
Petroleum revenue tax	(9)	–	**(9)**	156	–	156
	121	**228**	**349**	272	435	707

Differences between current tax charged and taxes paid arose principally due to the following factors:

- corporation tax payments are generally based on estimated profits, partly during the year and partly in the following year and cash tax balancing on agreement with tax authorities will also occur in future periods. Fluctuations in profits from year to year may therefore give rise to divergence between the charge for the current year and taxes paid; and
- PRT payments are based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Variations in production from period to period may therefore lead to temporary differences between the tax charged and the tax paid.

10. EARNINGS PER ORDINARY SHARE

Earnings per share (EPS) is the amount of profit or loss attributable to each share. Basic EPS is the amount of profit or loss for the year divided by the weighted average number of shares in issue during the year. Diluted EPS includes the impact of outstanding share options.

Basic loss per ordinary share has been calculated by dividing the loss attributable to equity holders of the Company for the year of £747 million (2014: £1,012 million loss) by the weighted average number of ordinary shares in issue during the year of 5,011 million (2014: 5,022 million). The number of shares excludes 72 million ordinary shares (2014: 82 million), being the weighted average number of the Company's own shares held in the employee share trust and treasury shares purchased by the Group as part of the share repurchase programme.

The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements and exceptional items assists with understanding the underlying performance of the Group, as explained in note 2.

In 2014, the Group purchased 132.1 million ordinary shares of 6$\frac{14}{81}$ pence each. These shares represented 2.6% of the called up share capital as at 31 December 2014 and were purchased at an average price of £3.18 per share for a total consideration including expenses of £422 million. These shares were purchased as part of the £420 million share repurchase programme announced on 18 December 2013; they are held as treasury shares and are deducted from equity unless they are cancelled (see note S4). No such shares were purchased in 2015.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported loss for either 2015 or 2014, however, the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

Weighted average number of shares

Year ended 31 December	2015 Million shares	2014 Million shares
Weighted average number of shares – basic	**5,011**	5,022
Dilutive impact of share-based payment schemes (i)	**38**	27
Weighted average number of shares – diluted	**5,049**	5,049

(i) The dilutive impact of share-based payment schemes is included in the calculation of diluted EPS, unless it has the effect of increasing the profit or decreasing the loss attributable to each share. Therefore, these shares are excluded from the calculation of basic diluted EPS in 2015 and 2014.

Notes to the Financial Statements

10. EARNINGS PER ORDINARY SHARE

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	2015 £m	2015 Pence per ordinary share	2014 (restated) (i) £m	2014 (restated) (i) Pence per ordinary share
Loss – basic	**(747)**	**(14.9)**	(1,012)	(20.2)
Net exceptional items after taxation (notes 2 and 7) (ii)	**1,739**	**34.7**	1,144	22.8
Certain re-measurement (gains)/losses after taxation (notes 2 and 7)	**(129)**	**(2.6)**	771	15.4
Earnings – adjusted basic (i)	**863**	**17.2**	903	18.0
Loss – diluted	**(747)**	**(14.9)**	(1,012)	(20.2)
Earnings – adjusted diluted (i)	**863**	**17.1**	903	17.9

(i) Adjusted basic and adjusted diluted earnings and adjusted basic and adjusted diluted EPS have been restated; refer to note 2.
(ii) Net exceptional loss after taxation of £1,846 million (2014: £1,161 million loss) is reduced by £107 million (2014: £17 million) for the purpose of calculating adjusted basic and adjusted diluted EPS. The adjustment reflects the share of net exceptional items attributable to non-controlling interests.

11. DIVIDENDS

Dividends represent the cash return of profits to shareholders and are paid twice a year, in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

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

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

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

£176 million of the £418 million prior year final dividend was in the form of ordinary shares to shareholders opting in to the scrip dividend alternative. The market value per share at the date of payment was £2.57 per share resulting in the issue of 68 million new shares and £171 million being credited to the share premium account.

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

Despite the consolidated Group's retained earnings being £482 million, the Group still has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. Refer to the Centrica plc Company Balance Sheet on page 170. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up the ownership chain to replenish Centrica plc's reserve levels.

Notes to the Financial Statements

12. ACQUISITIONS AND DISPOSALS

(a) Business combinations

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

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

AlertMe

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

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

Panoramic Power

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

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

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

Provisional fair value of the identifiable acquired assets and liabilities

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

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

Notes to the Financial Statements

12. ACQUISITIONS AND DISPOSALS

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions had been made at the beginning of the year, would show revenue of £27,974 million (compared to reported revenue of £27,971 million) and profit after taxation before exceptional items and certain re-measurements of £829 million (compared to reported profit after taxation of £833 million). This pro forma information includes the revenue and profits/losses made by the acquired businesses between the beginning of the financial year and the date of acquisition, not restated for accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

2014 business combinations – fair value updates

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

(b) Assets and liabilities of disposal groups classified as held for sale

Assets and associated liabilities that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet.

On 16 November 2015, a Sale and Purchase Agreement (SPA) was entered into with Apache Beryl Limited to divest the non-operated interests in Skene and Buckland for consideration of US$10 million (£7 million). This transaction is expected to complete in the first half of 2016. The interests in Skene and Buckland are held within the 'Centrica Energy – Gas' segment.

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

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

PP&E includes significant investment in power stations, gas production and gas storage assets. Once operational, all assets are depreciated over their useful economic lives.

(a) Carrying amounts

	2015 Land and buildings £m	2015 Plant, equipment and vehicles £m	2015 Power generation £m	2015 Gas production and storage £m	2015 **Total £m**	2014 Land and buildings £m	2014 Plant, equipment and vehicles £m	2014 Power generation £m	2014 Gas production and storage £m	2014 Total £m
Cost										
1 January	29	633	2,061	15,158	**17,881**	29	537	2,052	14,052	16,670
Additions and capitalised borrowing costs (notes 8 and 4(f))	1	115	12	642	**770**	–	107	64	941	1,112
Acquisitions	–	–	–	–	**–**	–	1	30	40	71
Disposals/retirements (i)	–	(142)	–	(27)	**(169)**	–	(9)	(90)	(8)	(107)
Transfers (ii)	–	–	–	32	**32**	–	–	1	18	19
Transfers to disposal groups held for sale	–	–	–	(204)	**(204)**	–	(5)	–	(105)	(110)
Decommissioning liability revisions and additions (note 21)	–	–	(1)	(192)	**(193)**	–	–	4	609	613
Exchange adjustments	–	(4)	(2)	(465)	**(471)**	–	2	–	(389)	(387)
31 December	**30**	**602**	**2,070**	**14,944**	**17,646**	29	633	2,061	15,158	17,881
Accumulated depreciation and impairment										
1 January	15	330	1,639	9,520	**11,504**	14	277	1,137	7,796	9,224
Charge for the year	1	76	31	778	**886**	1	65	55	838	959
Impairments	–	–	34	1,139	**1,173**	–	–	532	1,130	1,662
Disposals/retirements (i)	–	(139)	–	(21)	**(160)**	–	(6)	(85)	(5)	(96)
Transfers	–	–	–	–	**–**	–	–	–	(3)	(3)
Transfers to disposal groups held for sale	–	–	–	(201)	**(201)**	–	(5)	–	(95)	(100)
Exchange adjustments	–	(5)	–	(180)	**(185)**	–	(1)	–	(141)	(142)
31 December	**16**	**262**	**1,704**	**11,035**	**13,017**	15	330	1,639	9,520	11,504
NBV at 31 December	**14**	**340**	**366**	**3,909**	**4,629**	14	303	422	5,638	6,377

(i) Included within plant, equipment and vehicles disposals are £133 million of gross assets which have been retired and have a net book value of zero.
(ii) Transfers to/from other balance sheet accounts includes £32 million (2014: £18 million) transfers from intangible assets for exploration licences where the field is now being developed.

(b) Assets in the course of construction included in above carrying amounts

31 December	**2015 £m**	2014 £m
Plant, equipment and vehicles	**53**	101
Gas production and storage	**1,245**	1,136

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

(c) Assets held under finance leases and to which title was restricted included in above carrying amounts

	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	2015 Total £m	Plant, equipment and vehicles £m	Power generation £m	Gas production and storage £m	2014 Total £m
Cost at 1 January	–	469	415	**884**	–	469	415	884
Additions	48	–	–	**48**	–	–	–	–
Cost at 31 December	**48**	**469**	**415**	**932**	–	469	415	884
Aggregate depreciation at 1 January	–	435	394	**829**	–	257	390	647
Charge for the year	2	3	3	**8**	–	28	4	32
Impairments	–	31	–	**31**	–	150	–	150
Aggregate depreciation at 31 December	**2**	**469**	**397**	**868**	–	435	394	829
NBV at 31 December	**46**	**–**	**18**	**64**	–	34	21	55

14. INTERESTS IN JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates represent businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%. These include investments in the existing EDF UK nuclear power station fleet and various UK wind farms.

(a) Interests in joint ventures and associates

	Investments in joint ventures and associates £m	Shareholder loans £m	2015 Total £m	Investments in joint ventures and associates £m	Shareholder loans £m	2014 Total £m
1 January	2,045	350	**2,395**	2,259	399	2,658
Additions	13	–	**13**	24	24	48
Disposals	(3)	–	**(3)**	(24)	–	(24)
Decrease in shareholder loans	–	(190)	**(190)**	–	(73)	(73)
Share of profits for the year	187	–	**187**	132	–	132
Share of other comprehensive income	(5)	–	**(5)**	6	–	6
Impairment (note 7)	(372)	–	**(372)**	(214)	–	(214)
Dividends (i)	(186)	–	**(186)**	(138)	–	(138)
31 December	**1,679**	**160**	**1,839**	2,045	350	2,395

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

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

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

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

Further information on the Group's investments in joint ventures and associates is provided in notes 6 and S10.

Notes to the Financial Statements

15. OTHER INTANGIBLE ASSETS AND GOODWILL

The Group Balance Sheet contains significant intangible assets. Goodwill, customer relationships and brands arise when we acquire a business. Goodwill is attributable to enhanced geographical presence, cost savings, synergies, growth opportunities and technical goodwill from items such as deferred tax. Goodwill is not amortised but is assessed for recoverability each year.

The Group uses European Union Allowances (EUAs) and Renewable Obligation Certificates (ROCs) to satisfy its related obligations.

Upstream exploration and evaluation expenditure is capitalised as an intangible asset until development of the asset commences, at which point it is transferred to PP&E or is deemed to not be commercially viable and is written down.

(a) Carrying amounts

						2015						2014
	Customer relationships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	**Total £m**	Customer relationships and brands £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Goodwill £m	Total £m
Cost												
1 January	654	1,505	260	562	2,736	**5,717**	593	1,346	179	566	2,862	5,546
Additions and capitalised borrowing costs (notes 8 and 4(f))	2	153	617	81	–	**853**	–	191	547	201	–	939
Acquisitions (ii)	–	32	2	–	71	**105**	44	–	1	1	16	62
Disposals/retirements and surrenders (iii)	–	(307)	(585)	(3)	–	**(895)**	(3)	(3)	(473)	–	–	(479)
Write-downs	–	–	–	(71)	–	**(71)**	–	–	–	(135)	–	(135)
Transfers (iv)	–	–	–	(32)	–	**(32)**	–	(32)	–	(20)	(154)	(206)
Exchange adjustments	27	(3)	5	(52)	(29)	**(52)**	20	3	6	(51)	12	(10)
31 December	**683**	**1,380**	**299**	**485**	**2,778**	**5,625**	654	1,505	260	562	2,736	5,717
Accumulated amortisation												
1 January	297	669	2	22	127	**1,117**	185	591	3	–	43	822
Amortisation	73	161	–	–	–	**234**	103	114	–	–	–	217
Impairments (notes 7 and 15(b))	–	–	–	137	609	**746**	–	–	1	22	87	110
Disposals/retirements and surrenders	–	(298)	–	–	–	**(298)**	(3)	(1)	(2)	–	–	(6)
Transfers (iv)	–	–	–	–	–	**–**	–	(29)	–	–	(3)	(32)
Exchange adjustments	17	(8)	–	–	(7)	**2**	12	(6)	–	–	–	6
31 December	**387**	**524**	**2**	**159**	**729**	**1,801**	297	669	2	22	127	1,117
NBV at 31 December	**296**	**856**	**297**	**326**	**2,049**	**3,824**	357	836	258	540	2,609	4,600

(i) Application software includes assets under construction with a cost of £193 million (2014: £220 million).
(ii) The £2 million EUAs and ROCs acquisition relates to a fair value adjustment in respect of a prior year business combination.
(iii) Included within application software disposals/retirements and surrenders are £286 million of gross assets which have been retired and have a net book value of zero.
(iv) Transfers to/from other balance sheet accounts, primarily PP&E.

Notes to the Financial Statements

15. OTHER INTANGIBLE ASSETS AND GOODWILL

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

Goodwill acquired through business combinations, and indefinite-lived intangible assets, has been allocated for impairment testing purposes to individual CGUs or groups of CGUs, each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes.

31 December	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relate	2015 Carrying amount of goodwill £m	2015 Carrying amount of indefinite-lived intangible assets (i) £m	2015 Total £m	2014 Carrying amount of goodwill £m	2014 Carrying amount of indefinite-lived intangible assets (i) £m	2014 Total £m
CGUs							
British Gas:							
Residential energy supply	AlertMe	46	–	46	–	–	–
Business energy supply and services	Enron Direct/Electricity Direct	178	–	178	178	–	178
Residential services	Dyno-Rod	38	57	95	38	57	95
Bord Gáis Energy	Bord Gáis Energy	13	–	13	15	–	15
Centrica Energy Gas:							
UK/Norway/Netherlands	Newfield/Heimdal/Venture	350	–	350	880	–	880
North America	Suncor	–	–	–	110	–	110
Direct Energy:							
Residential energy supply	Direct Energy/ATCO/CPL/WTU/FCP/Bounce	723	–	723	742	–	742
Residential and business services	Residential Services Group/Clockwork/Astrum Solar	202	13	215	191	12	203
Business energy supply	Direct Energy/ATCO/Strategic Energy/FCP/HEM/Panoramic Power	499	–	499	455	–	455
Other	Various	–	–	–	–	1	1
		2,049	70	2,119	2,609	70	2,679

(i) The indefinite-lived assets mainly relate to the Mr Sparky and Benjamin Franklin brands acquired as part of the Clockwork business combination, and the Dyno-Rod brand.

(c) Impairment reviews – summary of results

During the year, £510 million of goodwill in the UK/Norway/Netherlands CGU and £99 million of goodwill in the North America CGU in the ‘Centrica Energy – Gas’ segment was impaired (see note 7 for further details). For all other material CGUs, the recoverable amounts exceed their carrying values at the impairment test date. Details of the impairment test methodologies and assumptions used are provided in note 7 and note S2.

Notes to the Financial Statements

16. DEFERRED TAX LIABILITIES AND ASSETS

Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future as a result of differences in the accounting and tax bases of assets and liabilities. The principal deferred tax liabilities and assets recognised by the Group relate to capital investments, fair value movements on derivative financial instruments, PRT and pensions.

	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked to market positions £m	Net deferred PRT (i) £m	Retirement benefit obligation and other provisions £m	Total £m
1 January 2014	(2,045)	705	(9)	76	(48)	(1,321)
Charge to income – change to tax rates	(1)	(7)	(11)	–	–	(19)
Credit/(charge) to income – other	583	64	348	(12)	(51)	932
(Charge)/credit to equity	–	(3)	(1)	–	18	14
Acquisition/disposal of businesses	8	4	–	–	1	13
Transfer of liabilities to non-controlling interests	32	–	–	–	–	32
Exchange and other adjustments	20	17	3	–	–	40
31 December 2014	(1,403)	780	330	64	(80)	(309)
Credit/(charge) to income – change to tax rates	212	(61)	20	(29)	21	**163**
Credit/(charge) to income – other	226	126	81	42	(16)	**459**
(Charge)/credit to equity	–	(2)	(6)	–	50	**42**
Acquisition/disposal of businesses	(5)	–	–	–	–	**(5)**
Net assets of disposal groups classified as held for sale	2	(10)	–	–	–	**(8)**
Exchange and other adjustments	48	(8)	17	–	–	**57**
31 December 2015	**(920)**	**825**	**442**	**77**	**(25)**	**399**

(i) The deferred PRT amounts include the effect of deferred corporation tax as PRT is deductible for corporation tax purposes.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

31 December	**2015** Assets £m	**2015** Liabilities £m	2014 Assets £m	2014 Liabilities £m
Gross deferred tax balances crystallising within one year	**372**	**(307)**	301	(365)
Gross deferred tax balances crystallising after one year	**1,654**	**(1,320)**	1,362	(1,607)
	2,026	**(1,627)**	1,663	(1,972)
Offsetting deferred tax balances	**(1,529)**	**1,529**	(1,309)	1,309
Net deferred tax balances (after offsetting for financial reporting purposes)	**497**	**(98)**	354	(663)

Deferred tax assets arise principally on decommissioning provisions, trading losses carried forward and marked to market positions. Forecasts indicate that there will be suitable taxable profits to utilise those deferred tax assets not offset against deferred tax liabilities. Specific legislative provisions applicable to oil and gas production provide assurance that deferred tax assets relating to decommissioning costs and certain trading losses will be utilised.

At the balance sheet date the Group had certain unrecognised deductible temporary differences of £963 million (2014: £881 million), of which £790 million (2014: £266 million) are carried forward tax losses available for utilisation against future taxable profits. Some £118 million (2014: £127 million) of these losses will expire within one to five years. All other temporary differences have no expiry date. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. At the balance sheet date, no taxable temporary differences existed in respect of the Group's overseas investments (2014: nil). The deferred tax liability arising on these temporary differences is estimated to be nil (2014: nil).

Notes to the Financial Statements

17. TRADE AND OTHER RECEIVABLES

Trade and other receivables include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of expected irrecoverable debts. Other receivables include payments made in advance to our suppliers.

31 December	2015 Current £m	2015 Non-current £m	2014 Current £m	2014 Non-current £m
Financial assets:				
Trade receivables	**2,493**	**–**	2,405	–
Accrued energy income	**1,925**	**–**	2,311	–
Other accrued income	**127**	**–**	160	–
Cash collateral posted (note 24(c))	**216**	**–**	961	–
Other receivables (including loans) (i)	**338**	**25**	365	24
	5,099	**25**	6,202	24
Less: provision for credit losses	**(694)**	**–**	(634)	–
	4,405	**25**	5,568	24
Non-financial assets: prepayments and other receivables	**500**	**36**	658	63
	4,905	**61**	6,226	87

(i) 2014 includes a deposit with Societe Generale classified as 'Loans and other receivables'.

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

31 December	2015 Current £m	2015 Non-current £m	2014 Current £m	2014 Non-current £m
Financial assets by class:				
Residential customers	**1,562**	**7**	1,856	6
Business customers	**2,496**	**12**	2,940	13
Treasury, trading and energy procurement counterparties	**1,041**	**6**	1,406	5
	5,099	**25**	6,202	24
Less: provision for credit losses	**(694)**	**–**	(634)	–
	4,405	**25**	5,568	24

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from falling due upon receipt to falling due in 30 days from receipt. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

Current financial assets within trade and other receivables net of provision for credit losses on an undiscounted basis

31 December	2015 £m	2014 £m
Balances that are not past due	**2,790**	3,749
Balances that are past due but not considered to be individually impaired	**1,576**	1,783
Balances with customers that are considered to be individually impaired	**39**	36
	4,405	5,568

An ageing of the carrying value of trade and other receivables that are past due that are not considered to be individually impaired is as follows:

Financial assets within trade and other receivables on an undiscounted basis

31 December	2015 £m	2014 £m
Days past due:		
Less than 30 days	**745**	905
30 to 89 days	**366**	397
Less than 90 days	**1,111**	1,302
90 to 182 days	**225**	179
183 to 365 days	**163**	183
Greater than 365 days	**77**	119
	1,576	1,783

Notes to the Financial Statements

17. TRADE AND OTHER RECEIVABLES

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, informed by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote. The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. Movements in the provision for credit losses by class are as follows:

	2015				2014			
	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(388)	(243)	(3)	**(634)**	(374)	(226)	(3)	(603)
Impairment of trade receivables (i) (ii)	(109)	(188)	–	**(297)**	(132)	(133)	–	(265)
Receivables written off	138	99	–	**237**	118	116	–	234
31 December	**(359)**	**(332)**	**(3)**	**(694)**	(388)	(243)	(3)	(634)

(i) Includes £38 million (2014: nil) of items previously classified as provisions within accrued energy income that management believes is more appropriately classified as provisions for credit losses.
(ii) 2014 includes £25 million of existing provisions acquired with business combinations.

18. INVENTORIES

Inventories represent assets that we intend to use in future periods, either by selling the asset itself (for example gas in storage) or by using it to provide a service to a customer.

31 December	**2015 £m**	2014 £m
Gas in storage and transportation	**221**	344
Other raw materials and consumables	**160**	169
Finished goods and goods for resale	**14**	42
	395	555

The Group consumed £889 million of inventories (2014: £804 million) during the year. Write downs amounting to £19 million (2014: £8 million) were charged to the Group Income Statement in the year.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value, and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value, with changes in fair value recognised in the Group's results for the year, before exceptional items and certain re-measurements (i)
Energy procurement/ optimisation	Carried at fair value, with changes in fair value reflected in certain re-measurements (ii)

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.
(ii) Energy contracts designated at fair value through profit or loss include certain energy contracts that the Group has, at its option, designated at fair value through profit or loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note S2).

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. Note S5 provides further detail on the Group's hedge accounting.

Notes to the Financial Statements

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(i) Included within these categories are £82 million (2014: £89 million) of derivatives used to hedge movements in net debt. See note 24(c).

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components, analysed on a net carrying value basis:

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

Net gains/(losses) on derivative financial instruments due to re-measurement 31 December	2015 Income Statement £m	2015 Equity £m	2014 Income Statement £m	2014 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	**36**	**–**	(27)	–
Derivative financial instruments – held for trading under IAS 39	**148**	**–**	(1,137)	–
Energy contracts designated at fair value through profit or loss	**10**	**–**	(21)	–
Derivative financial instruments in hedge accounting relationships	**(29)**	**28**	60	(29)
	165	**28**	(1,125)	(29)

Notes to the Financial Statements

20. TRADE AND OTHER PAYABLES

Trade and other payables include accruals, and are principally amounts we owe to our suppliers. Financial deferred income represents monies received from customers in advance of the delivery of goods or the performance of services by the Group.

31 December	2015 Current £m	2015 Non-current £m	2014 Current £m	2014 Non-current £m
Financial liabilities:				
Trade payables	**(649)**	**–**	(864)	–
Deferred income	**(584)**	**–**	(506)	–
Capital payables	**(181)**	**–**	(190)	–
Other payables	**(573)**	**(34)**	(727)	(43)
Accruals:				
Commodity costs	**(1,187)**	**–**	(1,438)	–
Transportation, distribution and metering costs	**(326)**	**–**	(354)	–
Operating and other accruals	**(853)**	**–**	(876)	–
	(2,366)	**–**	(2,668)	–
	(4,353)	**(34)**	(4,955)	(43)
Non-financial liabilities:				
Other payables and accruals	**(548)**	**(20)**	(547)	(26)
Deferred income	**(133)**	**(16)**	(165)	(14)
	(5,034)	**(70)**	(5,667)	(83)

Financial liabilities within current trade and other payables 31 December	2015 £m	2014 £m
Less than 90 days	**(4,160)**	(4,864)
90 to 182 days	**(77)**	(24)
183 to 365 days	**(116)**	(67)
	(4,353)	(4,955)

Notes to the Financial Statements

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions are recognised when an obligation exists that can be reliably measured, but where there is uncertainty over the timing and/or amount of the payment. The main provisions relate to decommissioning costs for upstream assets we own, or have owned, which require restoration or remediation. Further provisions relate to purchase contracts we have entered into that are now onerous, restructuring costs, and legal and regulatory matters.

Current provisions for other liabilities and charges	1 January 2015 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Utilised £m	Transfers (i) £m	Exchange adjustments £m	**31 December 2015 £m**
Restructuring costs	(23)	–	(4)	–	1	15	(5)	–	**(16)**
Decommissioning costs (ii)	(110)	–	(2)	–	11	88	(106)	2	**(117)**
Purchase contract loss provision (iii)	(184)	–	(33)	(10)	–	65	(8)	7	**(163)**
Other (iv)	(78)	–	(78)	–	15	45	(4)	–	**(100)**
	(395)	**–**	**(117)**	**(10)**	**27**	**213**	**(123)**	**9**	**(396)**

Non-current provisions for other liabilities and charges	1 January 2015 £m	Acquisitions and disposals £m	Charged in the year £m	Notional interest £m	Unused and reversed in the year £m	Revisions and additions £m	Transfers (i) £m	Exchange adjustments £m	**31 December 2015 £m**
Restructuring costs	(13)	–	–	–	–	–	2	–	**(11)**
Decommissioning costs (ii)	(2,992)	6	(48)	(63)	50	193	151	111	**(2,592)**
Purchase contract loss provision (iii)	(134)	–	(58)	(3)	–	–	8	(4)	**(191)**
Other (iv)	(64)	–	(10)	–	24	–	5	–	**(45)**
	(3,203)	**6**	**(116)**	**(66)**	**74**	**193**	**166**	**107**	**(2,839)**

Included within the above liabilities are the following financial liabilities:

Financial liabilities 31 December	**2015 Current £m**	**2015 Non-current £m**	2014 Current £m	2014 Non-current £m
Restructuring costs	**(16)**	**(9)**	(23)	(11)
Provisions other than restructuring costs	**(252)**	**(222)**	(238)	(122)
	(268)	**(231)**	(261)	(133)

(i) Includes transfers to/from other balance sheet accounts including retirement benefit obligations and liabilities of disposal groups classified as held for sale.
(ii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is expected to occur by 2066, with the majority of the provision being utilised between 2020 and 2040.
(iii) The purchase contract loss provision relates to a number of European gas transportation contracts, the Rijnmond and Spalding tolling contracts and Direct Energy wind farm power purchase agreements. The majority of the provision is expected to be utilised by 2020.
(iv) Other provisions have been made for insurance, legal and various other claims.

Notes to the Financial Statements

22. POST RETIREMENT BENEFITS

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

(a) Summary of main post retirement benefit schemes

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

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

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

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

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated Directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the majority of the combined assets of the Registered Pension Schemes. The board of the CCCIF is currently comprised of nine Directors; three independent Directors, three Directors appointed by Centrica plc (including the Chairman) and one Director appointed by each of the three Registered Pension Schemes.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006, and has been reflected in subsequent valuations, including the 31 March 2015 valuations.

Notes to the Financial Statements

22. POST RETIREMENT BENEFITS

(b) Risks

The Registered Pension Schemes expose the Group to the following risks:

Asset volatility
The pension liabilities are calculated using a discount rate set with reference to AA corporate bond yields; if the growth in plan assets is lower than this, this will create an actuarial loss within other equity. The CCCIF is responsible for managing the assets of each scheme in line with the liability-related investment objectives that have been set by the trustees of the schemes, and invests in a diversified portfolio of assets. The schemes are relatively young in nature (the schemes opened in 1997 on the formation of Centrica plc on demerger from BG plc (formerly British Gas plc), and only took on liabilities in respect of active employees). Therefore, the CCCIF holds a significant proportion of return-seeking assets; such assets are generally expected to provide a higher return than corporate bonds, but result in greater exposure to volatility and risk in the short term. The investment objectives are to achieve a target return above a return based on a portfolio of gilts, subject to a maximum volatility ceiling. If there have been advantageous asset movements relative to liabilities above a set threshold, then de-risking is undertaken, and as a consequence the return target and maximum volatility ceiling are reduced.

Interest rate
A decrease in the bond interest rate will increase the net present value of the pension liabilities. The relative immaturity of the schemes means that the duration of the liabilities is longer than average for typical UK pension schemes, resulting in a relatively higher exposure to interest rate risk.

Inflation
Pensions in deferment, pensions in payment and pensions accrued under the career average schemes increase in line with the Retail Price Index (RPI) and the Consumer Price Index (CPI). Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. During the year the Group offered a pension increase exchange (PIE) to future retirees within the Registered Pension Schemes. This PIE gives the option to receive a higher initial pension in return for giving up certain future increases linked to RPI. This has resulted in a past service credit of £38 million in the year.

Longevity
The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary
For final salary schemes, the pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011 changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk.

Foreign exchange
Certain of the assets held by the CCCIF are denominated in foreign currencies, and hence their values are subject to exchange rate risk.

The CCCIF has long-term hedging programmes in place to manage interest rate, inflation and foreign exchange risks.

The table below analyses the total liabilities of the Registered Pension Schemes, calculated in accordance with accounting principles, by type of liability, as at 31 December 2015.

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

Notes to the Financial Statements

22. POST RETIREMENT BENEFITS

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

Major assumptions used for the actuarial valuation 31 December	**2015** **%**	2014 %
Rate of increase in employee earnings:		
Subject to cap	**1.7**	1.7
Other	**3.0**	3.0
Rate of increase in pensions in payment	**3.0**	3.0
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**1.9**	1.9
In line with RPI	**3.0**	3.0
Discount rate	**3.9**	3.9

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include an allowance for future improvements in mortality. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member 31 December	**2015** **Male** **Years**	 **Female** **Years**	2014 Male Years	 Female Years
Currently aged 65	**23.4**	**25.1**	22.7	25.1
Currently aged 45	**25.1**	**27.0**	24.4	27.0

The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuations of the pension schemes.

Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

Impact of changing material assumptions 31 December	**2015** **Increase/ decrease in assumption**	 **Indicative effect on scheme liabilities** **%**	2014 Increase/ decrease in assumption	 Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to cap	**0.25%**	**+/–1**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–4**	0.25%	+/–5
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–4**	0.25%	+/–5
Longevity assumption	**1 year**	**+/–3**	1 year	+/–3

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

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

(d) Amounts included in the Group Balance Sheet

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

Notes to the Financial Statements

22. POST RETIREMENT BENEFITS

(e) Movement in the year

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

(i) A salary sacrifice arrangement was introduced on 1 April 2013 for pension scheme members. The contributions paid via the salary sacrifice arrangement have been treated as employer contributions, and included within current service cost, with a corresponding reduction in salary costs.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £43 million (2014: £37 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £13 million (2014: £12 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market values of plan assets were:

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

Notes to the Financial Statements

22. POST RETIREMENT BENEFITS

Included within equities are £1 million (2014: £2 million) of ordinary shares of Centrica plc via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £2 million (2014: £3 million) of bonds issued by Centrica plc held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships described in note 22(g), no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

Included within the Group Balance Sheet within non-current securities are £76 million (2014: £75 million) of investments, held in trust on behalf of the Group, as security in respect of the Centrica Unfunded Pension Scheme. Of the pension scheme liabilities above, £50 million (2014: £49 million) relate to this scheme. More information on the Centrica Unfunded Pension Scheme is included in the Remuneration Report on pages 63 to 79.

(g) Pension scheme contributions

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

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

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

The Group estimates that it will pay £98 million of ordinary employer contributions during 2016 at an average rate of 21% of pensionable pay, together with £25 million of contributions paid via the salary sacrifice arrangement. At 31 March 2015 (the date of the latest full actuarial valuations) the weighted average duration of the liabilities of the Registered Pension Schemes was 24 years.

23. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts, where there is a right of offset with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

Notes to the Financial Statements

23. COMMITMENTS AND CONTINGENCIES

The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note S3. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note S3. In addition, the volumes used in calculating the maturity analysis in note S3 are estimated using valuation techniques, rather than being based on minimum contractual quantities.

On 25 March 2013, the Group and Company announced that it had entered into a 20-year agreement with Cheniere to purchase 89bcf per annum of LNG volumes for export from the Sabine Pass liquefaction plant in the US, subject to a number of project milestones and regulatory approvals being achieved. During 2015 Cheniere made a positive final investment decision on the fifth project at Sabine Pass following receipt of Federal Energy Regulatory Commission approval and a Non-Free Trade Agreement licence from the Department of Energy. Under the terms of the agreement with Cheniere, the Group is committed to make capacity payments of up to £3.8 billion (included in 'LNG capacity' below) between 2018 and 2038. The Group may also make up to £6 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is estimated by the terminal operator as Q4 2018.

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

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

Notes to the Financial Statements

23. COMMITMENTS AND CONTINGENCIES

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

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

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

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

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2014: nil). Payments made for physical power are charged to the Group Income Statement as incurred and disclosed as contingent rents.

(b) Guarantees and indemnities

This section discloses any guarantees and indemnities that the Group has given, where we may have to provide security in the future against existing and future obligations that will remain for a specific period.

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or provide other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

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

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

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

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

(c) Contingent liabilities

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

There are no other material contingent liabilities.

Notes to the Financial Statements

24. SOURCES OF FINANCE

(a) Capital structure

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

31 December	2015 £m	2014 £m
Net debt	**4,747**	5,196
Equity	**1,178**	2,735
Capital	**5,925**	7,931

Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain a strong credit profile. The Group's credit standing is important for several reasons: to maintain a low cost of debt, limit collateral requirements in energy trading, hedging and decommissioning security arrangements, and to ensure the Group is an attractive counterparty to energy producers and long-term customers.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored; including those used by the credit rating agencies, such as debt to cash flow ratios and adjusted EBITDA to gross interest expense. At 31 December 2015, the ratio of the Group's net debt to adjusted EBITDA was 2.0 (2014: 1.8). Adjusted EBITDA to gross interest expense for the year ended 31 December 2015 was 7.2 (2014: 8.8).

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

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

(b) Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2015, the Group had undrawn committed credit facilities of £4,379 million (2014: £3,751 million) and £637 million (2014: £374 million) of unrestricted cash and cash equivalents. 136% (2014: 112%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 12.0 years (2014: 12.8 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 24(c) for movement in cash posted or received as collateral.

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

The relatively high level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Directors' Report – Governance, on page 62.

Notes to the Financial Statements

24. SOURCES OF FINANCE

(c) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

	Cash and cash equivalents (i) £m	Cash posted/ (received) as collateral (ii) £m	Current and non-current securities (iii) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (iv) £m	Derivatives £m	Net debt £m
1 January 2014	719	107	211	(6,031)	52	(4,942)
Cash inflow from sale of securities	5	–	(5)	–	–	–
Cash inflow from additional borrowings (iv)	1,311	–	–	(1,311)	–	–
Cash outflow from payment of capital element of finance leases	(32)	–	–	32	–	–
Cash outflow from repayment of borrowings	(486)	–	–	486	–	–
Remaining cash outflow and movement in cash posted/received under margin and collateral agreements (v)	(895)	640	–	–	–	(255)
Revaluation	–	–	8	(61)	21	(32)
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(9)	16	7
Exchange adjustments	(1)	29	1	(62)	–	(33)
Other non-cash movements (vi)	–	–	59	–	–	59
31 December 2014	621	776	274	(6,956)	89	(5,196)
Cash inflow from sale of securities (vi)	26	–	(26)	–	–	**–**
Cash inflow from additional borrowings	1,000	–	–	(1,000)	–	**–**
Cash outflow from payment of capital element of finance leases	(35)	–	–	35	–	**–**
Cash outflow from repayment of borrowings	(1,615)	–	–	1,615	–	**–**
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (v)	879	(282)	–	–	–	**597**
Revaluation	–	–	–	26	(16)	**10**
(Increase)/decrease in interest payable and amortisation of borrowings	–	–	–	(26)	9	**(17)**
New finance lease agreements	–	–	–	(49)	–	**(49)**
Exchange adjustments	(16)	41	(4)	(113)	–	**(92)**
31 December 2015	**860**	**535**	**244**	**(6,468)**	**82**	**(4,747)**

(i) Cash and cash equivalents includes £223 million (2014: £247 million) of restricted cash mostly held by the Group's insurance undertakings that is not readily available to be used for other purposes within the Group.

(ii) Collateral is posted or received to support energy trading and procurement activities. It is posted when contracts with marginable counterparties are out of the money and is received when contracts are in the money. These positions reverse when contracts are settled and the collateral is returned. Of the net cash collateral posted at the year end, £74 million (2014: £185 million) is included within trade payables, £216 million (2014: £961 million) within trade receivables, and £393 million (2014: nil) has been offset against net derivative financial liabilities. The items, to which the cash posted or received as collateral under margin and collateral agreements relate are not included within net debt.

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

(iv) In 2014, a £30 million deposit with Societe Generale in relation to a rolling credit facility was included within this category. The deposit was classified as an other receivable (see note 17) but the matching loan was included in borrowings. In 2015 the principal was repaid and the deposit released. Borrowings in 2015 are therefore not net of related deposits.

(v) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).

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

Notes to the Financial Statements

24. SOURCES OF FINANCE

(d) Borrowings, finance leases and interest accruals summary

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

(i) As at 31 December 2014, current bank overdrafts and loans included £300 million of short-term borrowings drawn under committed facilities with maturities of 1 April 2019.
(ii) €50 million of zero coupon notes have an accrual yield of 4.200%, which will result in a €114 million repayment on maturity.
(iii) The Group has the right to repay at par on 10 April 2025 and every interest payment date thereafter.
(iv) The Group has the right to repay at par on 10 April 2021 and every interest payment date thereafter.
(v) Contingent rents paid under finance lease obligations during the year were £27 million (2014: £30 million).

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

25. SHARE CAPITAL

Ordinary share capital represents the total number of shares issued which are publicly traded. We also disclose the number of own and treasury shares the Company holds, which the Company has bought itself, principally as part of the share repurchase programme.

Allotted and fully paid share capital of the Company 31 December	**2015 £m**	2014 £m
5,128,545,946 ordinary shares of $6^{14}/_{81}$ pence each (2014: 5,045,590,478)	**317**	311

During the year no shares were cancelled (2014: 154.3 million).

Notes to the Financial Statements

25. SHARE CAPITAL

The closing price of one Centrica ordinary share on 31 December 2015 was 218.1 pence (2014: 279.0 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive treasury shares to satisfy future obligations of certain employee share schemes. The movements in own and treasury shares during the year are shown below:

	Own shares		Treasury shares	
	2015 Million shares	2014 Million shares	**2015 Million shares**	2014 Million shares
1 January	**5.5**	6.4	**76.9**	119.1
Shares purchased	**3.0**	1.9	**–**	132.1
Shares cancelled	**–**	–	**–**	(154.3)
Treasury shares placed into trust	**1.5**	3.3	**(1.5)**	(3.3)
Shares released to employees on vesting	**(4.0)**	(6.1)	**(16.7)**	(16.7)
31 December (i)	**6.0**	5.5	**58.7**	76.9

(i) The closing balance in the treasury and own share reserve of own shares was £17 million (2014: £18 million) and treasury shares was £181 million (2014: £238 million).

26. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2015 and the date of this report.

Disposal

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

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

Dividends

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

Notes to the Financial Statements
Supplementary information

Supplementary information includes additional information and disclosures we are required to make by accounting standards or regulation.

S1. GENERAL INFORMATION

Centrica plc is a company domiciled and incorporated in the UK. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. The nature of the Group's operations and principal activities are set out in note 4(a) and on pages 1 to 42.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section sets out the Group's significant accounting policies in addition to the critical accounting policies applied in the preparation of these consolidated Financial Statements. These accounting policies have been consistently applied to the years presented.

Income Statement presentation

The Group Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments, and items that are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described below.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. Control is exercised over an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition (at which point the Group gains control over a business as defined by IFRS 3, and applies the acquisition method to account for the transaction as a business combination) or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and joint ventures to align the accounting policies with those used by the Group.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Fixed-fee service and insurance contracts: revenue from these contracts is recognised in the Group Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within revenue. Cushion gas sales revenue is recognised when the gas is transferred to the customer account or sold to the market.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Upstream production: revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Power generation: revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought-in materials and services.

Cost of sales relating to fixed-fee service and insurance contracts includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Cost of sales relating to gas and oil production includes depreciation of assets used in production of gas and oil, royalty costs and direct labour costs.

Cost of sales within power generation businesses includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

Investment income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a Group financing rate representative of the weighted average borrowing rate of the Group is used (2015: 4.2%, 2014: 4.0%). Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentational currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange movements are included in the Group Income Statement for the period. In previous periods, the Group utilised net investment hedging and exchange differences on foreign currency borrowings that provided a hedge against a net investment in a foreign entity were taken directly to equity. Upon the disposal or partial disposal of the net investment any accumulated foreign exchange reserves related to the investment are recognised in the Group Income Statement. The Group no longer uses net investment hedging but historic exchange differences remain in equity until the disposal of the specific investments.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rate prevailing at the dates of the initial transaction.

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's non-sterling functional currency subsidiary undertakings, joint ventures and associates are translated into pounds sterling at exchange rates prevailing at the balance sheet date. The results of these (generally foreign) subsidiary undertakings, joint ventures and associates are translated into pounds sterling at the average rates of exchange for the relevant period. The relevant exchange rates are shown below:

Exchange rate per pound sterling (£)	Closing rate at 31 December 2015	2014	Average rate for the year ended 31 December 2015	2014
US dollars	**1.47**	1.56	**1.53**	1.65
Canadian dollars	**2.04**	1.81	**1.96**	1.82
Euro	**1.36**	1.29	**1.38**	1.24
Norwegian kroner	**13.04**	11.67	**12.35**	10.40

Exchange adjustments arising from the retranslation of the opening net assets and results of non-sterling functional currency operations are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Group Income Statement on disposal.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 63 to 79, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

The majority of the share-based payment charge arises from five schemes. More information is included in the Remuneration Report on pages 63 to 79.

Deferred Matching Share Scheme (DMSS):
- Applicable employees: Senior Executive Group.
- From 2015 this scheme was replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management.
- Vesting period of four years, comprising bonus year and three-year performance period.
- Participants must defer between 20% and 40% of annual pre-tax bonus into scheme (deferred shares) and can elect to invest additional amounts of annual bonus up to a maximum of 50% of total potential bonus (investment shares).
- Deferred and investment shares will be matched with conditional shares. On achievement of performance targets over a three-year period, matching shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Performance measured through Group and segment Economic Profit (EP) targets.
- Leaving prior to vesting date will normally mean forfeiting rights to deferred and matching shares.

Long Term Incentive Scheme (LTIS):
- Applicable employees: senior management.
- From 2015 this scheme was replaced by the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP) for Executive Directors and On Track Incentive Plan (OTIP) for Senior Executives and senior management.
- Vesting period of three years following grant date.
- Grants after 2012: number of shares calculated according to EPS, Group EP, total shareholder return (TSR) and non-financial KPIs.
- Following the end of the assessed performance period, and subject to continued employment at that date, shares are either released immediately or delivered as nil cost options exercisable for seven years.
- Leaving prior to vesting date will normally mean forfeiting rights.

Share Award Scheme (SAS):
- Applicable employees: senior and middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years.
- Leaving prior to vesting date will normally mean forfeiting rights.

On Track Incentive Plan (OTIP):
- Applicable employees: Senior Executives, senior and middle management.
- Shares vest subject to continued employment within the Group in two stages: half after two years and the other half after three years.
- Leaving prior to vesting date will normally mean forfeiting rights to the unvested share awards.

Long Term Incentive Plan (LTIP):
- Applicable employees: Executive Directors.
- Shares vest subject to continued employment and performance conditions after a three-year period.
- Number of shares calculated according to EPS, Group EP and non-financial KPIs.
- Mandatory holding period of two years following vesting during which claw back applies.
- Leaving prior to vesting date will normally mean forfeiting rights.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS and LTIP	Market value on the date of grant
SAS, DMSS, OTIP	Market value on the date of grant

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Business combinations and goodwill
The acquisition of subsidiaries is accounted for using the acquisition method (at the point the Group gains control over a business as defined by IFRS 3: 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations', which are recognised and measured at FVLCD. The Group recognises any non-controlling interests in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill arising on a business combination represents the excess of the consideration transferred, the amount of the non-controlling interests and the acquisition date fair value of any previously held interest in the acquiree over the Group's interest in the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of a stake in a joint venture or an associate represents the excess of the consideration transferred over the Group's interest in the fair value of the identifiable assets and liabilities of the investee at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on an investment in a joint venture or in an associate is not recognised separately, but is shown under 'Interests in joint ventures and associates' in the Group Balance Sheet. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Group Income Statement.

On disposal of a subsidiary, associate or joint venture entity, any amount of goodwill attributed to that entity is included in the determination of the profit or loss on disposal. A similar accounting treatment is applied on disposal of assets that represent a business.

Other intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly attributable labour and directly attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and are tested for impairment annually otherwise they are assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortisation periods for the principal categories of intangible assets are as follows:

Contractual customer relationships	Up to 20 years
Strategic identifiable acquired brands	Indefinite
Application software	Up to 15 years
Licences	Up to 20 years

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

EU Emissions Trading Scheme and renewable obligation certificates

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Group Income Statement. The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is extinguished at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Group Income Statement when received.

Exploration, evaluation, development and production assets

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to PP&E. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is annually compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration assets are reviewed annually for indicators of impairment and production and development assets are tested annually for impairment.

Interests in joint arrangements and associates

Under IFRS 11, joint arrangements are those that convey joint control which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Associates are investments over which the Group has significant influence but not control or joint control, and generally holds between 20% and 50% of the voting rights. The Group’s joint ventures and associates (as defined in note 6) are accounted for using the equity method.

Under the equity method, investments are carried at cost plus post-acquisition changes in the Group’s share of net assets, less any impairment in value in individual investments. The Group Income Statement reflects the Group’s share of the results of operations after tax and interest. Accounting policies of the joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Upon initial acquisition goodwill may arise and is recognised within ‘interests in joint ventures and associates’ in the Group Balance Sheet.

The Group’s interests in joint operations (oil and gas exploration and production licence arrangements) are accounted for by recognising its assets (including its share of assets held jointly), its liabilities (including its share of liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Where the Group has an equity stake or a participating interest in operations governed by a joint arrangement for which it is acting as operator, an assessment is carried out to confirm whether the Group is acting as agent or principal. As the terms and conditions negotiated between business partners usually provide joint control to the parties over the relevant activities of the oil and gas fields and/or wind farms that are governed by joint arrangements, the Group is usually deemed to be an agent when it is appointed as operator and not as principal (as the contracts entered into do not convey control to the parties). Accordingly, the Group recognises its equity share of these arrangements as outlined above except that it presents gross liabilities and gross receivables of the joint venture (including amounts due to or from non-operating partners) in the Group Balance Sheet in accordance with the netting rules of IAS 32: ‘Financial instruments: presentation’.

Notes to the Financial Statements

Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

PP&E is included in the Group Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see above), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant	Five to 20 years
Equipment and vehicles	Three to 10 years
Power stations and wind farms	Up to 30 years
Gas storage	Up to 40 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Impairment assumptions

Details of the approach taken to impairment are included in note 7(c). The following provides further information on the assumptions used in the VIU calculations:

VIU – Key assumptions used

The VIU calculations use pre-tax cash flow projections based on the Group's Board-approved three-year business plans. The Group's business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note S6 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(a) VIU – Growth rates and discount rates

Cash flows beyond the three-year plan period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate.

Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are provided in the table below:

2015	**British Gas – Residential energy supply %**	**British Gas – Business energy supply and services %**	**British Gas – Residential services %**	**Direct Energy – Residential energy supply (i) %**	**Direct Energy – Business energy supply (i) %**	**Direct Energy – Residential and business services (i) %**	**Bord Gáis Energy %**
Growth rate to perpetuity	**1.9**	**1.9**	**1.9**	**2.2/2.1**	**2.2/2.1**	**2.2/2.1**	**1.5**
Pre-tax discount rate	**7.4**	**7.4**	**7.4**	**8.5/8.0**	**8.5/8.0**	**8.5/8.0**	**7.2**

2014	British Gas – Residential energy supply %	British Gas – Business energy supply and services %	British Gas – Residential services %	Direct Energy – Residential energy supply (i) %	Direct Energy – Business energy supply (i) %	Direct Energy – Residential and business services (i) %	Bord Gáis Energy %
Growth rate to perpetuity	2.0	2.0	2.0	2.3/2.0	2.3/2.0	2.3/2.0	N/A
Pre-tax discount rate	7.4	7.4	7.4	8.4/8.0	8.4/8.0	8.4/8.0	N/A

(i) US/Canada respectively.

(b) VIU – Inflation rates

Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts for the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK: 1.8% (2014: 2.0%); Canada: 2.1% (2014: 2.0%); Republic of Ireland 1.4% (2014: N/A); and the US: 2.2% (2014: 2.2%).

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are gross margin, revenues and operating costs. Each of these assumptions is tailored to the specific CGU using management's knowledge of the environment, as shown in the table below:

CGU	Gross margin	Revenues	Operating costs
British Gas – Residential energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and transportation cost inflation.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
British Gas – Business energy supply and services	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions and transportation cost inflation.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
British Gas – Residential services	Future sales: based on percentages achieved in the period up to the approval of the business plan.	Market share: percentage immediately prior to business plan. Adjusted for: change in growth rates to reflect the current economic environment in the UK.	Wages: projected headcount in line with expected efficiency programme. Credit losses: historical assumptions regarding provisions have been updated to reflect the current UK environment.
Direct Energy – Residential energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Adjusted for: competitor data.	Market share: average percentage immediately prior to business plan. Adjusted for: expectations of growth or decline to reflect competitive differences.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect planned business process efficiencies. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.
Direct Energy – Business energy supply	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved historically.	Market share: based on historical growth trends and planned sales activities by individual market sector. Adjusted for: prices based on contractual terms for fixed price contracts and forward market curves for both gas and electricity in Canada and the US.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Future developments: reduction in costs to reflect expected savings. Customer acquisition: based on experience of costs required to support acquisition, renewal and other servicing activities. Credit losses: historical assumptions regarding provisions have been updated to reflect the current North American environment.
Direct Energy – Residential and business services	New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Adjusted for: current economic conditions, consumer confidence and the status of the housing market as appropriate.	Market share: based on historical growth trends by individual market sector. Adjusted for: new product offerings and continued penetration into new markets.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: estimated bad debt and allowances based on historical collection rights and trends which are evaluated by business.
Bord Gáis Energy	Existing customers: based on contractual terms. New customers and renewals: based on gross margins achieved in the period leading up to the date of the business plan. Both adjusted for current market conditions, inflation and transportation cost.	Market share: percentage immediately prior to business plan. Adjusted for: growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	Wages: projected headcount in line with expected activity. Salary increases based on inflation expectations. Credit losses: historical assumptions regarding provisions have been updated to reflect the current Irish market environment.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overlift and underlift

Off-take arrangements for oil and gas produced from joint operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within trade and other payables, or trade and other receivables, respectively and measured at market value, with movements in the period recognised within cost of sales.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are valued on a weighted-average cost basis, at the lower of cost, or estimated net realisable value after allowance for redundant and slow-moving items.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas and oil production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. If there is an indication that the new carrying amount of the asset is not fully recoverable, the asset is tested for impairment and an impairment loss is recognised where necessary. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Group Income Statement within interest expense.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Group Income Statement and Group Cash Flow Statement.

Pensions and other post employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur in the Group Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Group Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately. Costs of administering the schemes are charged to the Group Income Statement. Net interest, being the change in the net defined benefit liability or asset due to the passage of time is recognised in the Group Income Statement net finance cost.

The net defined benefit liability or asset recognised in the Group Balance Sheet represents the present value of the defined benefit obligation of the schemes, and the fair value of the schemes' assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are recognised in the Group Income Statement as they fall due.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the Group Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. From time to time, the Group may have open tax issues with a number of revenue authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the dispute can be made, management provides for its best estimate of the liability. These estimates take into account the specific circumstances of each dispute and relevant external advice. Each item is considered separately and on a basis that provides the better prediction of the outcome.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest rate method less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not, they are presented as non-current assets.

(b) Trade payables

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate method. If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) Interest-bearing loans and other borrowings
All interest-bearing loans and other borrowings with banks and similar institutions are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Group Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, which are recognised initially at fair value on the Group Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Group Statement of Comprehensive Income, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Group Income Statement for the period. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Group Income Statement.

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in the Group Income Statement. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Group Income Statement.

Impairment losses recognised in the Group Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Group Income Statement. Impairment losses recognised in the Group Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss
The Group holds investments in gilts which it designates as fair value through profit or loss. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Group Income Statement within interest income or interest expense.

(h) Derivative financial instruments
The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements ('own use'), and are not within the scope of IAS 39. The assessment of whether a contract is deemed to be 'own use' is conducted on a Group basis without reference to underlying book structures, business units or legal entities.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Group Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Group Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies which are approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines. Certain derivative instruments used for hedging purposes are designated in hedge accounting relationships which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives that are used for hedging purposes which are not designated in hedge accounting relationships and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred (not recognised) and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Group Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Group Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Notes to the Financial Statements
Supplementary information

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Embedded derivatives: derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Group Income Statement. The closely related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Group Income Statement.

(i) Hedge accounting
For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges. Note S5 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39.

Nuclear activity
The Group's investment in Lake Acquisitions Limited ('Nuclear') is accounted for as an associate. The following accounting policies are specific to the accounting for the nuclear activity of this associate.

(a) Fuel costs – nuclear front end
Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. All costs are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end
Advanced gas-cooled reactors (AGR)
Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise a loading related cost per tonne of uranium and a rebate/surcharge to this cost dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Group Income Statement in proportion to the amount of fuel burnt.

Pressurised water reactor (PWR)
Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and charged to the Group Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation
The nuclear fleet is depreciated from the date of the Group acquiring its share of the fleet on a straight-line basis, with remaining depreciable periods currently of up to 20 years.

Expenditure on major inspection and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is three years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements
Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, the former British Energy Group agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables
The UK Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities.

(f) Nuclear liabilities
Nuclear liabilities represent provision for liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown
Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are fully provided for at the balance sheet date. The provision is based on a projected value per tonne of fuel remaining at closure, discounted back to the balance sheet date and recorded as a long term liability.

S3. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall financial risk management processes are designed to identify, manage and mitigate these risks.

Further detail on the Group's overall risk management processes is included within the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42.

Financial risk management is overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority

Notes to the Financial Statements

Supplementary information

S3. FINANCIAL RISK MANAGEMENT

from the Board. Treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy and collateral risk policy. Downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates and interest rates). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

(a) Commodity price risk management

The Group is exposed to commodity price risk in its upstream assets, energy procurement contracts, downstream and proprietary energy trading activities and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. The Group uses Profit at Risk (PaR) limits to control exposures to market prices. These are complemented by other limits including Value at Risk (VaR), volumetric or stop-loss limits to control risk around trading activities.

(i) Energy procurement, upstream and downstream activities

The Group's energy procurement, upstream and downstream activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions transacted with the intent of securing gas and power for the Group's downstream customers in the UK, North America and the Republic of Ireland from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group's commodity price risk exposure in its energy procurement, upstream and downstream activities is driven by the cost of procuring gas and electricity to serve its downstream customers and which varies with wholesale commodity prices. The primary risk is that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group is also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including weather, energy consumption changes, customer attrition and economic climate. There is also risk associated with ensuring there is sufficient commodity available to secure supply to customers.

In order to manage the exposure to market prices associated with the Group's energy procurement, upstream and downstream activities the Group uses a specific set of limits (including volumetric, VaR, PaR and stop-loss) established by the Board, Executive Committee, GFRMC or business unit Financial Risk Committees.

PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, regular stress and scenario tests are performed to evaluate the impact on the portfolio of possible substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39 (note S6).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, upstream and downstream contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy procurement, upstream and downstream activities to commodity price risk according to IFRS 7: 'Financial instruments: disclosures'. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit or equity. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and downstream contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. VaR measures the estimated potential loss at a 95% confidence level over a one-day holding period. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2015 is disclosed in note 19.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation. VaR assumes that historical price behaviours will continue in the future and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

Notes to the Financial Statements
Supplementary information

S3. FINANCIAL RISK MANAGEMENT

(b) Currency risk management
The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes the Group's net investments in North America and Europe as well as foreign currency denominated forecast transactions and firm commitments.

(i) Transactional currency risk
The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian kroner in Norway and euros in the Netherlands and the Republic of Ireland. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement and upstream activities, where many transactions are denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt, primarily in US dollars, euros, Japanese yen or Hong Kong dollars.

It is the Group's policy to hedge material transactional exposures using derivatives to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2015, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2014: nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

(ii) Translational currency risk
The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations where appropriate, subject to certain parameters monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is monitored by the GFRMC.

(c) Interest rate risk management
In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives.

(d) Sensitivity analysis
IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2015, assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2015, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis has been prepared based on 31 December 2015 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2015 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced. This is because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

(i) Transactional currency risk
The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in foreign exchange rates. The Group deems 10% movements to US dollar, Canadian dollar and euro currency rates relative to pounds sterling to be reasonably possible. The impact of such movements on profit and equity, both before and after taxation, is immaterial to the Group except for US Dollar where a 10% upward movement would increase profit by £52 million and a 10% downward movement would decrease profit by £80 million.

Notes to the Financial Statements

Supplementary information

S3. FINANCIAL RISK MANAGEMENT

(ii) Interest rate risk

The Group has performed an analysis of the sensitivity of the Group's financial position and performance to changes in interest rates. The Group deems a one percentage point move in UK, US and euro interest rates to be reasonably possible. The impact of such movements on profit and equity, both after taxation, is immaterial.

(iii) Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out above are as follows:

Energy prices	Base price (i)	2015 Reasonably possible change in variable % (ii)	Base price (i)	2014 Reasonably possible change in variable % (ii)
UK gas (p/therm)	**34**	**+/–5**	50	+/–6
UK power (£/MWh)	**36**	**+/–4**	47	+/–5
UK coal (US$/tonne)	**43**	**+/–4**	67	+/–6
UK emissions (€/tonne)	**8**	**+/–1**	8	+/–1
UK oil (US$/bbl)	**47**	**+/–7**	69	+/–14
North American gas (US cents/therm)	**25**	**+/–4**	33	+/–4
North American power (US$/MWh)	**34**	**+/–6**	41	+/–6

Incremental profit/(loss)	2015 Impact on profit (ii) £m	2014 Impact on profit (ii) £m
UK energy prices (combined) – increase/(decrease)	**52/(63)**	114/(94)
North American energy prices (combined) – increase/(decrease)	**93/(93)**	109/(111)

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.
(ii) The reasonably possible change in variable and the impact on profit are calculated using both the active and inactive market curves for all UK energy prices.

The impact on equity of such price changes is immaterial.

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary based on a consistent set of principles. It continues to operate within its limits. In the US and Europe, there is a continued increase in trading over exchanges or margined contracts, this helps to reduce counterparty credit risk, but carries increased liquidity requirements. The Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with and without margining obligations.

The fall in global commodity prices during the year has added financial pressure to many of our counterparties and in some cases has had a detrimental impact on their financial strength and resulting credit risk profile. These pressures have been and will continue to be taken into account in counterparty credit reviews. During the 12 months ended 31 December 2015, many large European utilities have been downgraded lowering the overall credit assessment of the industry. There have been significant downgrades for some specific European banks but as most have reduced their gas and power presence in Europe already this has not had a material impact.

The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2015 Derivative financial instruments with positive fair values £m	2015 Receivables from treasury, trading and energy procurement counterparties £m	2015 Cash and cash equivalents £m	2014 Derivative financial instruments with positive fair values £m	2014 Receivables from treasury, trading and energy procurement counterparties £m	2014 Cash and cash equivalents £m
AAA to AA	**16**	**7**	**404**	9	27	282
AA– to A–	**497**	**560**	**403**	530	643	296
BBB+ to BBB–	**462**	**237**	**31**	282	314	24
BB+ to BB–	**307**	**134**	**–**	37	87	4
B or lower	**13**	**1**	**–**	4	114	–
Unrated (i)	**81**	**108**	**22**	68	226	15
	1,376	**1,047**	**860**	930	1,411	621

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

Notes to the Financial Statements
Supplementary information

S3. FINANCIAL RISK MANAGEMENT
Details of how credit risk is managed across the asset categories are provided below.

(a) Treasury, trading and energy procurement activities
Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist (see S6 'Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements' for details of amounts offset). In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit. See note 24(c) for details of cash posted or received under margin or collateral agreements.

100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions.

IFRS 7 requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39. As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note S6) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities
In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern
Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. See note 24(b) for further information.

Notes to the Financial Statements

Supplementary information

S3. FINANCIAL RISK MANAGEMENT

Maturity profiles

Maturities of derivative financial instruments, provisions, borrowings and finance leases are provided in the following tables (all amounts are remaining contractual undiscounted cash flows):

Due for payment 2015	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(384)	(111)	(39)	(8)	(11)	–
Gross energy procurement contracts and related derivatives carried at fair value (i)	(7,040)	(3,421)	(2,135)	(2,047)	(2,604)	(10,448)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(4,106)	(565)	(117)	(125)	(30)	(912)
Inflow	4,071	554	107	106	19	808
Financial liabilities within provisions	(268)	(92)	(43)	(29)	(26)	(48)
Borrowings (bank loans, bonds, commercial paper and interest)	(598)	(417)	(681)	(327)	(405)	(7,544)
Finance lease: (ii)						
Minimum lease payments	(50)	(41)	(43)	(45)	(46)	(49)
Capital elements of leases	(43)	(36)	(38)	(41)	(44)	(48)

Due for payment 2014	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
Energy and interest derivatives in a loss position that will be settled on a net basis	(674)	(181)	(45)	(13)	(3)	(9)
Gross energy procurement contracts and related derivatives carried at fair value (i)	(9,092)	(4,480)	(1,498)	(1,274)	(1,384)	(8,321)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(5,242)	(756)	(73)	(12)	(89)	(354)
Inflow	5,163	738	71	9	82	236
Financial liabilities within provisions	(261)	(27)	(56)	(23)	(4)	(28)
Borrowings (bank loans, bonds, commercial paper and interest)	(1,656)	(555)	(367)	(735)	(288)	(6,680)
Finance lease: (ii)						
Minimum lease payments	(48)	(48)	(39)	(39)	(39)	(70)
Capital elements of leases	(35)	(38)	(30)	(32)	(35)	(67)

(i) Proprietary energy trades are excluded from this maturity analysis as we do not take physical delivery of volumes traded under these contracts. The associated cash flows are expected to be equal to the contract fair value at the balance sheet date. See note 19 for further details.

(ii) The difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.

Notes to the Financial Statements
Supplementary information

S4. OTHER EQUITY

This section summarises the Group's other equity reserve movements.

	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Available-for-sale reserve (AFS) £m	Revaluation reserve £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Merger and capital redemption reserve £m	Total £m
1 January 2014	(17)	(177)	(272)	14	10	(456)	100	483	(315)
Revaluation of available-for-sale securities	–	–	–	5	–	–	–	–	5
Actuarial loss	–	–	(83)	–	–	–	–	–	(83)
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(7)	–	–	(7)
Exercise of awards	–	–	–	–	–	78	(39)	–	39
Value of services provided	–	–	–	–	–	–	39	–	39
Purchase of treasury shares	–	–	–	–	–	(420)	–	–	(420)
Cancellation of shares held in treasury	–	–	–	–	–	549	–	10	559
Cash flow hedges:									
Net losses	(44)	–	–	–	–	–	–	–	(44)
Transferred to income and expense	46	–	–	–	–	–	–	–	46
Transfer to assets and liabilities	6	–	–	–	–	–	–	–	6
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	(15)	–	21	–	–	–	–	–	6
Reversal of revaluation reserve (asset impairment)	–	–	–	–	(13)	–	–	–	(13)
Taxation on above items	(1)	–	18	(1)	3	–	(5)	–	14
Exchange adjustments	–	(164)	–	–	–	–	–	–	(164)
31 December 2014	(25)	(341)	(316)	18	–	(256)	95	493	(332)
Revaluation of available-for-sale securities	–	–	–	5	–	–	–	–	**5**
Actuarial loss	–	–	(321)	–	–	–	–	–	**(321)**
Employee share schemes:									
Increase in own shares	–	–	–	–	–	(11)	–	–	**(11)**
Exercise of awards	–	–	–	–	–	69	(45)	–	**24**
Value of services provided	–	–	–	–	–	–	45	–	**45**
Cash flow hedges:									
Net gains	20	–	–	–	–	–	–	–	**20**
Transferred to income and expense	(12)	–	–	–	–	–	–	–	**(12)**
Transfer to assets and liabilities	7	–	–	–	–	–	–	–	**7**
Share of other comprehensive income/(loss) of joint ventures and associates, net of taxation	3	–	(8)	–	–	–	–	–	**(5)**
Taxation on above items	(6)	–	50	–	–	–	(2)	–	**42**
Exchange adjustments	–	(221)	3	–	–	–	–	–	**(218)**
31 December 2015	**(13)**	**(562)**	**(592)**	**23**	**–**	**(198)**	**93**	**493**	**(756)**

Merger reserve

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

Capital redemption reserve

In accordance with the Companies Act 1985, the Company has transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled. Up to 31 December 2015 the cumulative nominal value of shares repurchased and subsequently cancelled was £26 million (2014: £26 million).

Notes to the Financial Statements

Supplementary information

S4. OTHER EQUITY

Revaluation reserve

During 2005, the revaluation to fair value of the Group's existing interest in the Humber power station was recorded as a revaluation reserve adjustment following the acquisition by the Group of the remaining 40% in its owner, Centrica SHB Limited. In 2014, an impairment charge was made against the Humber power station, of which £13 million was recognised in the Group Statement of Comprehensive Income through the revaluation reserve (together with an offsetting £3 million deferred tax movement).

Own shares reserve

The own shares reserve reflects the cost of shares in the Company held in the Centrica employee share ownership trusts to meet the future requirements of the Group's share-based payment plans.

Treasury shares reserve

Treasury shares are acquired equity instruments of the Company. During 2014, the Group purchased £420 million of its own shares on the market under the share repurchase programme. The Group subsequently cancelled 154.3 million treasury shares with a nominal value of £10 million during 2014. The repurchase cost of £549 million was transferred to retained earnings.

Share-based payments reserve

The share-based payments reserve reflects the obligation to deliver shares to employees under the Group's share schemes in return for services provided.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange adjustments on the translation of the Group's foreign operations. Historically the Group has hedged its net investments in these foreign operations and the opening balance of the foreign currency translation reserve includes exchange translation adjustments on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39. Note S5 provides further detail on historical net investment hedges.

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Amounts are transferred from the cash flow hedging reserve to the Group Income Statement or Group Balance Sheet as and when the hedged item affects the Group Income Statement or Group Balance Sheet which is, for the most part, on receipt or payment of amounts denominated in foreign currencies and settlement of interest on debt instruments. Note S5 provides further detail on cash flow hedging.

S5. HEDGE ACCOUNTING

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or, in previous periods, hedges of net investments in foreign operations.

The fair values of derivatives and primary financial instruments in hedge accounting relationships at 31 December were as follows:

31 December	2015 Assets £m	2015 Liabilities £m	2014 Assets £m	2014 Liabilities £m
Fair value hedges	**129**	**(2)**	155	(1)
Cash flow hedges	**28**	**(69)**	13	(88)

The Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39 are described below.

Fair value hedges

A derivative is designated as a hedging instrument and its relationship to a recognised asset or liability is classified as a fair value hedge when it hedges the exposure to changes in the fair value of that recognised asset or liability. The Group's fair value hedges consist of interest rate swaps used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Group Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Group Income Statement within net finance cost. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Group Income Statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Gains or losses arising on fair value hedges net of gains or losses arising on hedged items attributable to the hedged risk for the years ended 31 December 2015 and 31 December 2014 were immaterial.

Cash flow hedges

A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The Group's cash flow hedges consist primarily of:

- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions;

Notes to the Financial Statements
Supplementary information

S5. HEDGE ACCOUNTING

- interest rate swaps used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates; and
- cross-currency interest rate swaps and forward foreign exchange contracts used to protect against the variability in cash flows associated with borrowings denominated in non-functional currencies.

The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Group Income Statement. The gains or losses that are initially recognised in the cash flow hedging reserve in the Group Statement of Comprehensive Income are transferred to the Group Income Statement in the same period in which the highly probable forecast transaction affects income. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Group Income Statement.

Note S4 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging is immaterial and is recognised immediately in the Group Income Statement.

Net investment hedges

Historically the Group engaged in net investment hedging (NIH) whereby it would obtain foreign currency debt issued in the same currency as its net investment in a foreign operation. Such hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity; any gain or loss on the ineffective portion of the hedge is recognised in the Group Income Statement. In 2009 the Group ceased to NIH, however the opening balance of the foreign currency translation reserve includes cumulative exchange translation adjustments on borrowings and derivatives classified as a NIH under the requirements of IAS 39. These balances will be recycled to the Group Income Statement on disposal of the relevant foreign operation.

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

(a) Fair value hierarchy

Financial assets and financial liabilities measured and held at fair value are classified into one of three categories, known as hierarchy levels, which are defined according to the inputs used to measure fair value as follows:

- Level 1: fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities;
- Level 2: fair value is determined using significant inputs that may be directly observable inputs or unobservable inputs that are corroborated by market data; and
- Level 3: fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

31 December	Level 1 £m	Level 2 £m	Level 3 (i) £m	**2015 Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	2014 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	17	1,172	(38)	**1,151**	4	688	12	704
Interest rate derivatives	–	129	–	**129**	–	158	–	158
Foreign exchange derivatives	–	96	–	**96**	–	68	–	68
Treasury gilts designated at fair value through profit or loss	124	–	–	**124**	129	–	–	129
Debt instruments	60	–	–	**60**	59	–	3	62
Equity instruments (ii)	27	30	3	**60**	24	59	–	83
Total financial assets at fair value	**228**	**1,427**	**(35)**	**1,620**	216	973	15	1,204
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(220)	(1,449)	(114)	**(1,783)**	(320)	(1,268)	(321)	(1,909)
Interest rate derivatives	–	(28)	–	**(28)**	–	(32)	–	(32)
Foreign exchange derivatives	–	(157)	–	**(157)**	–	(212)	–	(212)
Total financial liabilities at fair value	**(220)**	**(1,634)**	**(114)**	**(1,968)**	(320)	(1,512)	(321)	(2,153)

(i) Included within Level 3 energy derivative assets are liabilities of £53 million, which are presented within derivative assets on the Group Balance Sheet, as a result of being netted off the associated Level 2 trades with the same counterparty, in line with the netting policy described in Note S2.
(ii) Level 2 equity instruments relate to shares acquired in Enercare Inc.

Notes to the Financial Statements
Supplementary information

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS

During 2014, £31 million of net assets were transferred out of Level 1 into Level 2 as a result of the reassessment of derivatives held within the Hess Energy Marketing business acquired in 2013. There were no other significant transfers between Level 1 and Level 2 during 2015 and 2014.

The reconciliation of the Level 3 fair value measurements during the year is as follows:

	2015 Financial assets £m	2015 Financial liabilities £m	2014 Financial assets £m	2014 Financial liabilities £m
Level 3 financial instruments				
1 January	**15**	**(321)**	125	(81)
Total realised and unrealised (losses)/gains:				
Recognised in Group Income Statement	**(63)**	**195**	(69)	18
Purchases, sales, issuances and settlements (net)	**26**	**(41)**	(2)	(260)
Transfers between Level 2 and Level 3 (i)	**2**	**(15)**	(45)	3
Foreign exchange movements	**3**	**(14)**	6	(1)
Other (ii)	**(18)**	**82**	–	–
31 December	**(35)**	**(114)**	15	(321)
Total gains/(losses) for the year for Level 3 financial instruments held at the end of the reporting year (iii)	**8**	**(3)**	(61)	(233)

(i) Transfers between levels are deemed to occur at the beginning of the reporting period.
(ii) Other movements reflect margin collateral balances which have now been offset against the related Level 3 derivatives. The impact on 2014 balances is not considered to be material.
(iii) £8 million gains (2014: £61 million losses) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2014: nil) were recognised in other comprehensive income. £3 million losses (2014: £233 million) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2014: nil) were recognised in other comprehensive income.

(b) Valuation techniques used to derive Level 2 and Level 3 fair values and Group valuation process

Level 2 interest rate derivatives and foreign exchange derivatives comprise interest rate swaps and forward foreign exchange contracts. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

Level 2 energy derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market. The average discount rate applied to value this type of contract during 2015 was 1% (2014: 1%) (Europe) and 3% (2014: 3%) (North America) per annum.

For Level 3 energy derivatives, the main input used by the Group pertains to deriving expected future commodity prices in markets that are not active as far into the future as some of our contractual terms. This applies to certain contracts within the UK and US. Fair values are then calculated by comparing and discounting the difference between the expected contractual cash flows and these derived future prices using an average discount rate of 2% (2014: 1%) (UK) and 7% (2014: 7%) (US) per annum for 2015.

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**3**	**3**	**3**	**3**	**3**
North America (years)	**5**	**Up to 5**	**N/A**	**Up to 5**	**3**

Because the Level 3 energy derivative valuations involve the prediction of future commodity market prices, sometimes a long way into the future, reasonably possible alternative assumptions for gas, power, coal, emissions or oil prices may result in a higher or lower fair value for Level 3 financial instruments. Given the relative size of these fair values, it is unlikely that the impact of these reasonably possible changes would be significant when judged in relation to the Group's profit and loss or total asset value.

It should be noted that the fair values disclosed in the tables above only concern those contracts entered into which are within the scope of IAS 39. The Group has numerous other commodity contracts which are outside of the scope of IAS 39 and are not fair valued. The Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes.

The Group's valuation process includes specific teams of individuals that perform valuations of the Group's derivatives for financial reporting purposes, including Level 3 valuations. The Group has an independent team that derives future commodity price curves based on available external data and these prices feed in to the energy derivative valuations. The price curves are subject to review and approval by the Group's Executive Committee and valuations of all derivatives, together with other contracts that are not within the scope of IAS 39, are also reviewed regularly as part of the overall risk management process.

Where the fair value at initial recognition for contracts which extend beyond the active period differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Group Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Group Income Statement relating to the differences between the transaction prices and the amounts that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is immaterial.

Notes to the Financial Statements
Supplementary information

S6. FAIR VALUE OF FINANCIAL INSTRUMENTS
(c) Fair value of financial assets and liabilities held at amortised cost

The carrying value of the Group's financial assets and liabilities measured at amortised cost are approximately equal to their fair value except as listed below:

31 December		Notes	Carrying value £m	Fair value £m	2015 Fair value hierarchy	Carrying value £m	Fair value £m	2014 Fair value hierarchy
Bank overdrafts and loans (i)		24(d)	**(222)**	**(279)**	**Level 2**	(739)	(792)	Level 2
Bonds	Level 1	24(d)	**(5,795)**	**(6,078)**	**Level 1**	(5,094)	(5,676)	Level 1
	Level 2	24(d)	**(77)**	**(113)**	**Level 2**	(78)	(111)	Level 2
Obligations under finance leases		24(d)	**(250)**	**(272)**	**Level 2**	(237)	(268)	Level 2

(i) 2014 includes £427 million of liabilities where the carrying value is considered to approximate the fair value of the instrument.

Financial liabilities

The fair values of bonds classified as Level 1 within the fair value hierarchy are based on quoted market prices. The fair values of Level 2 bonds and bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts, short-term loans and commercial paper are assumed to equal their book values due to the short-term nature of these amounts. The fair values of obligations under finance leases have been determined by discounting contractual cash flows with reference to the Group's cost of borrowing.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

(d) Financial assets and liabilities subject to offsetting, master netting arrangements and similar arrangements

				Related amounts not offset in the Group Balance Sheet (i)		
31 December 2015	**Gross amounts of recognised financial instruments £m**	**Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m**	**Net amounts presented in the Group Balance Sheet £m**	**Financial instruments £m**	**Collateral £m**	**Net amount £m**
Derivative financial assets	**7,990**	**(6,614)**	**1,376**	**(401)**	**(74)**	**901**
Derivative financial liabilities	**(8,582)**	**6,614**	**(1,968)**	**401**	**244**	**(1,323)**
			(592)			**(422)**
Balances arising from commodity contracts						
Accrued energy income	**4,859**	**(2,934)**	**1,925**	**(183)**	**–**	**1,742**
Accruals for commodity costs	**(4,121)**	**2,934**	**(1,187)**	**183**	**–**	**(1,004)**
Cash and financing arrangements						
Cash and cash equivalents	**1,182**	**(322)**	**860**	**–**	**–**	**860**
Bank loans and overdrafts	**(544)**	**322**	**(222)**	**–**	**–**	**(222)**
Securities	**244**	**–**	**244**	**–**	**(28)**	**216**

				Related amounts not offset in the Group Balance Sheet (i)		
31 December 2014	Gross amounts of recognised financial instruments £m	Gross amounts of recognised financial instruments offset in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Financial instruments £m	Collateral £m	Net amount £m
Derivative financial assets	6,152	(5,222)	930	(320)	(185)	425
Derivative financial liabilities	(7,375)	5,222	(2,153)	320	990	(843)
			(1,223)			(418)
Balances arising from commodity contracts						
Accrued energy income	8,148	(5,837)	2,311	(466)	–	1,845
Accruals for commodity costs	(7,275)	5,837	(1,438)	466	–	(972)
Cash and financing arrangements						
Cash and cash equivalents	788	(167)	621	–	–	621
Bank loans and overdrafts	(906)	167	(739)	127	–	(612)
Securities	274	–	274	(97)	(29)	148
Other receivables (current)	365	–	365	(30)	–	335

(i) The Group has arrangements in place with various counterparties in respect of commodity trades which provide for a single net settlement of all financial instruments covered by the arrangement in the event of default or termination, or other circumstances arising whereby either party is unable to meet its obligations. The above table shows the potential impact of these arrangements being enforced by offsetting the relevant amounts within each Group Balance Sheet class of asset or liability, but does not show the impact of offsetting across Group Balance Sheet classes.

Notes to the Financial Statements
Supplementary information

S7. FIXED-FEE SERVICE AND INSURANCE CONTRACTS

This section includes fixed-fee service (FFS) and insurance contract disclosures for services related to British Gas – Residential services and Direct Energy – Residential and business services.

FFS contracts in North America are entered into with home and business services customers.

FFS contracts in the UK are entered into with home services customers by British Gas Services Limited (BGSL). Insurance contracts in the UK are entered into with home services customers by British Gas Insurance Limited (BGIL), authorised by the PRA and regulated by the FCA and the PRA.

Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover.

FFS contracts continue until cancelled by either party; insurance contracts normally provide cover for 12 months with the option of renewal.

The contracts protect policyholders against the risk of breakdowns, resulting in the transfer of an element of risk to the contract provider. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into; however, they generally include maintenance, repair and/or replacement of the items affected.

The levels of risk exposure and service provision to customers under contract terms are dependent on the occurrence of uncertain future events, in particular the nature and frequency of faults and the cost of repair or replacement of the items affected. Accordingly, the timing and amount of future cash outflows associated with the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- one safety and maintenance inspection either annually or in every continuous two-year period, as set out in the agreement;
- no limit to the number of call-outs to carry out repair work; and
- limits on certain maintenance and repair costs.

Revenue is recognised over the life of contracts having regard to the incidence of risk, in particular the seasonal propensity of claims which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Costs incurred to settle claims represent principally the engineer workforce employed by Centrica within home services and the cost of parts utilised in repair or maintenance. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of repairs both affect the profile of the workload and associated costs incurred across the year.

The risk exposure of these uncertain events is actively managed by undertaking the following risk mitigation activities:

- an initial service visit is provided to customers taking up most central heating contracts and in some instances pre-existing faults may lead to the contract being cancelled and no further cover being provided;
- an annual maintenance inspection is performed as part of most central heating contracts to help identify and prevent issues developing into significant maintenance or breakdown claims; and
- contract limits are applied to certain types of maintenance and repair work considered to be higher risk in terms of frequency and cost.

The costs of FFS claims and insurance claims incurred during the year were £42 million (2014: £79 million) and £381 million (2014: £344 million) respectively and are included in the table below in 'Expenses relating to FFS and insurance contracts'. All claims are settled immediately and in full. Due to the short average lead time between claims occurrence and settlement, no material provisions were outstanding at the balance sheet date (2014: nil).

	2015 £m	2014 £m
Total revenue	**1,173**	1,224
Expenses relating to FFS and insurance contracts	**(986)**	(1,004)
Deferred income	**(73)**	(78)
Accrued income	**24**	24

The Group considers whether estimated future cash flows under the contracts will be sufficient to meet expected future costs. Any deficiency is charged immediately to the Group Income Statement. Claims frequency is sensitive to the reliability of appliances as well as the impact of weather conditions. The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives.

Notes to the Financial Statements
Supplementary information

S8. RELATED PARTY TRANSACTIONS

The Group's principal related parties include its investments in wind farms and the existing EDF UK nuclear fleet.

During the year, the Group entered into the following arm's length transactions with related parties who are not members of the Group, and had the following associated balances:

	2015 Sale of goods and services £m	2015 Purchase of goods and services £m	2015 Amounts owed from £m	2015 Amounts owed to £m	2014 Sale of goods and services £m	2014 Purchase of goods and services £m	2014 Amounts owed from £m	2014 Amounts owed to £m
Joint ventures:								
Wind farms (as defined in note 6)	**14**	**(123)**	**232**	**(113)**	16	(126)	414	(104)
Associates:								
Nuclear (as defined in note 6)	**–**	**(639)**	**–**	**(61)**	–	(616)	–	(58)
Other	**3**	**(9)**	**2**	**–**	5	(42)	24	(2)
	17	**(771)**	**234**	**(174)**	21	(784)	438	(164)

Investment and funding transactions for joint ventures and associates are disclosed in note 14. Shareholder loan interest income for wind farm joint ventures in the period was £17 million (2014: £34 million). The terms of the outstanding balances related to trade receivables from related parties are typically 30 to 120 days. The balances are unsecured and will be settled in cash. No provision against amounts receivable from related parties was recognised during the year through the Group Income Statement (2014: nil). The balance of the provision at 31 December 2015 was nil (2014: £21 million).

At the balance sheet date, there were back to back committed facilities with Lake Acquisition Limited's facilities to EDF Nuclear Generation Limited totalling £120 million at Centrica's share, but nothing has been drawn down at 31 December 2015.

Key management personnel comprise members of the Board and Executive Committee, a total of 16 individuals at 31 December 2015 (2014: 15).

Remuneration of key management personnel Year ended 31 December	2015 £m	2014 £m
Short-term benefits	**12.3**	7.9
Post employment benefits	**1.9**	2.0
Share-based payments	**5.4**	0.4
	19.6	10.3

Remuneration of the Directors of Centrica plc Year ended 31 December	2015 £m	2014 (restated) (i) £m
Total emoluments (ii)	**6.4**	4.7
Gains made by Directors on the exercise of share options	**–**	3.6
Amounts receivable under long-term incentive schemes	**–**	1.9
Contributions into pension schemes	**0.7**	1.0

(i) The long-term incentives vesting in 2014 have been recalculated based on the share price on the date of vest. See Remuneration Report on page 72 for further details.
(ii) These emoluments were paid for services performed on behalf of the Group. No emoluments related specifically to services performed for the Company.

S9. AUDITORS' REMUNERATION

Year ended 31 December	2015 £m	2014 £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated Financial Statements (i)	**5.3**	5.6
Audit of the Company's subsidiaries	**1.4**	1.3
Total fees related to the audit of the parent and subsidiary entities	**6.7**	6.9
Fees payable to the Company's auditors and its associates for other services:		
Audit-related assurance services	**2.0**	2.1
Tax advisory services	**–**	0.2
Corporate finance services	**–**	0.4
All other services	**0.3**	0.2
	9.0	9.8
Fees in respect of pension scheme audits	**0.1**	0.1

(i) Including £0.3 million (2014: £0.2 million) for the audit of the Ofgem Consolidated Segmental Statement.

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Audit Committee has approved a detailed policy defining the types of work for which the Company's auditors can tender and the approvals required. In the past, the Company's auditors have been engaged on assignments in addition to their statutory audit duties where their expertise and experience with the Group are particularly important, including due diligence reporting and corporate finance support for acquisitions and disposals.

Notes to the Financial Statements

Supplementary information

S10. RELATED UNDERTAKINGS

The Group has a large number of related undertakings principally in the UK, US, Norway, Canada, the Netherlands and the Republic of Ireland. These are listed below.

(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
1773648 Alberta Ltd.	Gas and/or oil exploration and products and/or trading	Canada / A	Ordinary shares		100.0%
8401268 Canada Inc.	Gas and/or oil exploration and products and/or trading	Canada / B	Ordinary shares		100.0%
Accord Energy (Trading) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Accord Energy Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Airco Mechanical Ltd.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
AirTime Canada ULC	Home and/or commercial services	Canada / E	Ordinary shares		100.0%
AirTime LLC	Home and/or commercial services	United States / F	Membership interest		100.0%
Airtron Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
Alertme.com Ltd.(ii)	Energy management products and services	United Kingdom / C	Ordinary and preference shares		100.0%
Alertme.com Inc.(ii)	Energy management products and services	United States / G	Ordinary shares		100.0%
Alertme.com GmbH (ii)	Non-trading	Germany / H	Ordinary shares		100.0%
Astrum Solar Inc.	Home and/or commercial services	United States / I	Ordinary shares		100.0%
Atform Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
AWHR America's Water Heater Rentals LLC	Home and/or commercial services	United States / D	Membership interest		100.0%
Benjamin Franklin Franchising LLC	Home and/or commercial services	United States / F	Membership interest		100.0%
BGPGS Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
BMS Setpoint Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
BMS Solutions Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Bord Gáis Energy Limited	Energy supply and power generation	Republic of Ireland / J	Ordinary shares		100.0%
Bounce Energy Inc.	Energy supply	United States / D	Ordinary shares		100.0%
Bounce Energy NY LLC	Energy supply	United States / D	Membership interest		100.0%
Bounce Energy PA LLC	Energy supply	United States / D	Membership interest		100.0%
Bowland Resources (No.2) Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Bowland Resources Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Brae Canada Ltd.	Gas and/or oil exploration and production	Canada / A	Ordinary and preference shares		100.0%
British Gas Direct Employment Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
British Gas Energy Procurement Limited	Energy supply	United Kingdom / C	Ordinary shares		100.0%
British Gas Energy Services Limited	Energy management products and services	United Kingdom / C	Ordinary shares		100.0%
British Gas Finance Limited	Vehicle leasing	United Kingdom / C	Ordinary shares		100.0%
British Gas Housing Services Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
British Gas Insurance Limited	Insurance provision	United Kingdom / C	Ordinary shares		100.0%
British Gas Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
British Gas New Heating Limited	Electrical and gas installations	United Kingdom / C	Ordinary shares		100.0%
British Gas Services (Commercial) Limited	Servicing and installation of heating systems	United Kingdom / C	Ordinary shares		100.0%
British Gas Services Limited	Home services	United Kingdom / C	Ordinary shares		100.0%
British Gas Social Housing Limited	Servicing and installation of heating systems	United Kingdom / C	Ordinary shares		100.0%
British Gas Solar Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
British Gas Trading Limited	Energy supply	United Kingdom / C	Ordinary shares		100.0%
Business Gas Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
BuyMax LLC	Home and/or commercial services	United States / F	Membership interest		100.0%
Caythorpe Gas Storage Limited	Gas storage	United Kingdom / K	Ordinary shares		100.0%
Central Recoveries Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
Centrica (BOW) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica (DSW) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica (IOM) Limited	Dormant	Isle of Man / L	Ordinary shares		100.0%
Centrica (Lincs) Wind Farm Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica 25 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica 27 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Alpha Finance Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica America Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Barry Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Bastrop Finance Holdings	In liquidation	United Kingdom / C	Ordinary shares		100.0%
Centrica Beta Holdings Limited	Holding company	United Kingdom / C	Ordinary shares	100.0%	
Centrica Brigg Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Combined Common Investment Fund Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Delta Limited	Dormant	Isle of Man / M	Ordinary shares		100.0%
Centrica Directors Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Electric Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy (Trading) Limited	Wholesale energy trading	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy Limited	Wholesale energy trading	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy Marketing Limited	Wholesale energy trading	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy Operations Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy Renewable Investments Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Energy Tolling BV	Power generation	Netherlands / N	Ordinary shares		100.0%
Centrica Engineers Pension Trustees Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Epsilon Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica F3 Developments Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Centrica Finance (Canada) Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica Finance (Scotland) Limited	Holding company	United Kingdom / O	Ordinary shares		100.0%
Centrica Finance (US) Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica Finance Investments Limited	Non-trading	United Kingdom / C	Ordinary shares		100.0%
Centrica Finance Norway Limited	Investment company	Jersey / P	Ordinary shares		100.0%
Centrica Gamma Holdings Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica HoldCo GP LLC	Holding company	United States / D	Membership interest		100.0%
Centrica Holdings Limited	Holding company	United Kingdom / C	Ordinary shares	100.0%	
Centrica Ignite GP Limited	Investment company	United Kingdom / C	Ordinary shares		100.0%
Centrica Ignite LP Limited	Investment company	United Kingdom / C	Ordinary shares		100.0%
Centrica India Offshore Private Limited	Business services	India / Q	Ordinary shares		100.0%
Centrica Infrastructure BV	Construction, ownership and exploitation of infrastructure	Netherlands / N	Ordinary shares		100.0%
Centrica Infrastructure Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Centrica Insurance Company Limited	Insurance provision	Isle of Man / L	Ordinary and preference shares		100.0%
Centrica International BV	Group financing	Netherlands / N	Ordinary shares		100.0%
Centrica International Coöperatief WA	Investment company	Netherlands / N	Membership interest		100.0%
Centrica Jersey Limited	Dormant	Jersey / R	Ordinary shares		100.0%

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Centrica KL Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica KPS Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Lake Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica Langage Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Leasing (KL) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Leasing (PB) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica LNG Company Limited	LNG Trading	United Kingdom / C	Ordinary shares		100.0%
Centrica LNG UK Limited (ii)	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica LSA Trust Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
Centrica Nederland BV	Holding company	Netherlands / N	Ordinary shares		100.0%
Centrica Nigeria Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica No.12 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Nominees No.1 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica North Sea Gas Exploration Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica North Sea Gas Limited	Gas and/or oil exploration and production	United Kingdom / O	Ordinary shares		100.0%
Centrica North Sea Limited (iii)	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Centrica North Sea Oil Limited	Gas and/or oil exploration and production	United Kingdom / O	Ordinary shares		100.0%
Centrica Norway Limited (iv)	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Centrica Offshore UK Limited	Gas and/or oil exploration and production	United Kingdom / K	Ordinary shares		100.0%
Centrica Onshore Processing UK Limited	Dormant	United Kingdom / K	Ordinary shares		100.0%
Centrica Overseas Holdings Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica PB Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Pension Plan Trustees Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Pension Trustees Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Production (DMF) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Production (GMA) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Production (Services) Limited	Business services	United Kingdom / O	Ordinary shares		100.0%
Centrica Production Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Centrica Production Nederland BV	Gas and/or oil exploration and production	Netherlands / N	Ordinary Shares		100.0%
Centrica Production Trustees Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Centrica Quest Limited	In liquidation	United Kingdom / C	Ordinary shares	100.0%	
Centrica Renewable Energy Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Centrica Resources (Armada) Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Centrica Resources (Nigeria) Limited	Gas and/or oil exploration and production	Nigeria / S	Ordinary shares		100.0%
Centrica Resources (Norge) AS	Gas and/or oil exploration and production	Norway / T	Ordinary shares		100.0%
Centrica Resources (UK) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Resources Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Centrica Resources Petroleum UK Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Retail Holdings Netherlands BV	Holding company	Netherlands / N	Ordinary shares		100.0%
Centrica RPS Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Secretaries Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica SHB Limited	Power generation	United Kingdom / C	Ordinary shares		100.0%
Centrica Shipping Limited (ii) (v)	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Storage Holdings Limited	Holding company	United Kingdom / K	Ordinary shares		100.0%
Centrica Storage Limited	Gas storage	United Kingdom / K	Ordinary shares		100.0%
Centrica Trading Limited	Dormant	United Kingdom / C	Ordinary shares	100.0%	
Centrica Trinidad and Tobago Limited	Business services	Trinidad and Tobago / U	Ordinary shares		100.0%
Centrica Trust (No.1) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Centrica Trustees Limited	In liquidation	United Kingdom / C	Ordinary shares	100.0%	
Centrica Upstream Investment Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Centrica US Holdings Inc.	Holding company	United States / D	Ordinary shares		100.0%

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
CH4 Energy Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
CH4 Old Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Cheltenham Renovators Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
CID1 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
CIU1 Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Clockwork Acquisition II Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
Clockwork Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
Clockwork IP LLC	Holding company	United States / D	Membership interest		100.0%
CSA Offshore Services (Proprietary) Limited	Business services	South Africa / V	Ordinary shares		100.0%
DEML Investments Limited	Holding company	Canada / W	Ordinary shares		100.0%
DER Development No.10 Ltd.	Holding company	Canada / A	Ordinary shares		100.0%
Direct Energy (B.C.) Limited	Energy supply and/or services	Canada / B	Ordinary shares		100.0%
Direct Energy Business LLC	Energy supply and/or services	United States / D	Membership interest		100.0%
Direct Energy Business Marketing LLC	Energy supply and/or services	United States / D	Membership interest		100.0%
Direct Energy Business Services Limited	Commercial services	Canada / W	Ordinary and special shares		100.0%
Direct Energy GP LLC	Holding company	United States / D	Membership interest		100.0%
Direct Energy Holdings (Alberta) Inc.	Home and/or commercial services	Canada / A	Ordinary shares		100.0%
Direct Energy HVAC Services Ltd.	Home and/or commercial services	Canada / A	Ordinary shares		100.0%
Direct Energy Investments LLC	Energy supply and/or services	United States / D	Membership interest		100.0%
Direct Energy Leasing LLC	Home and/or commercial services	United States / D	Membership interest		100.0%
Direct Energy Marketing Inc.	Wholesale energy trading	United States / D	Ordinary and preference shares		100.0%
Direct Energy Marketing Limited	Energy supply and/or services	Canada / W	Ordinary shares		100.0%
Direct Energy New York Corporation	Energy supply	United States / D	Ordinary shares		100.0%
Direct Energy Operations LLC	Energy supply and/or services	United States / D	Membership interest		100.0%
Direct Energy Power Holdings Inc.	Holding company	United States / D	Ordinary shares		100.0%
Direct Energy Services LLC	Energy supply and/or services	United States / D	Membership interest		100.0%
Direct Energy Services Retail Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
Direct Energy Small Business LLC	Energy supply	United States / X	Membership interest		100.0%
Direct Energy Source LLC	Energy supply	United States / Y	Membership interest		100.0%
Direct Energy US Home Services Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%
Drips Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno Developments Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno Holdings Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno Kil (Franchising) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno-Plumbing Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno-Rod Limited	Operation of a franchise network	United Kingdom / C	Ordinary shares		100.0%
Dyno-Security Services Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Dyno-Services Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
ECL Contracts Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
ECL Investments Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Econergy Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
Electricity And Gas Recoveries Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Electricity Direct (UK) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Elswick Energy Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
EN1 Property Holdings Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Energetix DE LLC	Energy supply	United States / D	Membership interest		100.0%
Energy America LLC	Energy supply	United States / D	Membership interest		100.0%
Energy And Building Management Solutions Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Energy For Tomorrow	Not-for-profit energy services	United Kingdom / C	Limited by guarantee		100.0%
ES Old Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
First Choice Power GP LLC	Holding company	United States / D	Membership interest		100.0%
Gateway Energy Services Corporation	Energy supply	United States / X	Ordinary shares		100.0%
GB Gas Holdings Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
GF One Limited	In liquidation	United Kingdom / Z	Ordinary shares		100.0%
GF Two Limited	In liquidation	United Kingdom / Z	Ordinary shares		100.0%
GLID Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Goldbrand Development Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Hillserve Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Home Assistance UK Limited	Intermediary services, including claims handling and administration services	United Kingdom / C	Ordinary shares		100.0%
Home Warranty Holdings Corp.	Insurance provision	United States / D	Ordinary shares		100.0%
Home Warranty of America Inc. (vi)	Home and/or commercial services	United States / AA	Ordinary shares		100.0%
Home Warranty of America Inc. (vi)	Home and/or commercial services	United States / AB	Ordinary shares		100.0%
Humberland Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Hydrocarbon Resources Limited	Gas and/or oil exploration and production	United Kingdom / C	Ordinary shares		100.0%
Jannco 2 Limited	In liquidation	Guernsey / AC	Ordinary shares		100.0%
JK Environmental Services (UK) Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Killingholme Pensions Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Masters Inc.	Home and/or commercial services	United States / I	Ordinary shares		100.0%
Mister Sparky Franchising LLC	Home and/or commercial services	United States / AD	Membership interest		100.0%
New Millennium Academy LLC	Home and/or commercial services	United States / F	Membership interest		100.0%
Newco Five Limited (iii)	Dormant	United Kingdom / C	Ordinary shares		100.0%
Newco One Limited (iii)	Dormant	United Kingdom / C	Ordinary shares		100.0%
Newnova Ltd.	Dormant	United Kingdom / C	Ordinary shares		100.0%
Newnova Old Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
North Sea Infrastructure Partners Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
NSGP (Ensign) Limited	Gas supply	Jersey / AE	Ordinary shares		100.0%
NSIP (ETS) Limited	Gas supply	United Kingdom / C	Ordinary shares		100.0%
NSIP (Holdings) Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
NYSEG Solutions LLC	Energy supply	United States / D	Membership interest		100.0%
O'Connor Plumbing, Heating & Cooling Inc.	Home and/or commercial services	United States / AF	Ordinary shares		100.0%
One Hour Air Conditioning Franchising LLC	Home and/or commercial services	United States / AD	Membership interest		100.0%
P.H. Jones Facilities Management Ltd.	Servicing and maintenance of heating systems	United Kingdom / C	Ordinary shares		100.0%
P.H. Jones Group Limited	Holding company	United Kingdom / C	Ordinary shares		100.0%
Panoramic Power Ltd. (ii)	Energy management products and services	Israel / AG	Ordinary and preference shares		100.0%

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(a) Subsidiary undertakings

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Quality A/C Service LLC	Home and/or commercial services	United States / AH	Membership interest		100.0%
Repair and Care Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
RSG Holding Corp.	Holding company	United States / D	Ordinary shares		100.0%
Scottish Gas Limited	Dormant	United Kingdom / O	Ordinary shares		100.0%
Semplice Energy Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
SF (UK) Limited	In liquidation	United Kingdom / C	Ordinary shares		100.0%
Solar Technologies Group Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Solar Technologies Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
Soren Limited	Dormant	United Kingdom / C	Ordinary shares		100.0%
SuccessWare Inc.	Home and/or commercial services	United States / F	Ordinary shares		100.0%
UWIN LLC	Home and/or commercial services	United States / AD	Membership interest		100.0%
Willis Refrigeration, Air Conditioning & Heating Inc.	Home and/or commercial services	United States / D	Ordinary shares		100.0%

(i) For list of registered addresses, refer to note S10(d).
(ii) Acquired or established in 2015.
(iii) Centrica North Sea Limited, Newco Five Limited and Newco One Limited were renamed during the year (previously Centrica (Horne & Wren) Limited, British Gas Business Services Limited and British Gas Service Limited respectively).
(iv) Centrica Norway Limited is operating in Norway as Centrica Energi NUF.
(v) In February 2016 Centrica Shipping Limited was renamed to Pioneer Shipping Limited.
(vi) Home Warranty of America Inc. is registered as separate entities in the states of California and Illinois.

(b) Subsidiary undertakings – partnerships

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Centrica Finance Limited Partnership	Group financing	United Kingdom / O	Membership interest		100.0%
CFCEPS LLP	Group financing	United Kingdom / C	Membership interest		100.0%
CFCPP LLP	Group financing	United Kingdom / C	Membership interest		100.0%
CFCPS LLP	Group financing	United Kingdom / C	Membership interest		100.0%
CPL Retail Energy LP	Energy supply	United States / D	Membership interest		100.0%
CQ Energy Canada Partnership	Holding company	Canada / AI	Membership interest		60.0%
CQ Energy Canada Resources Partnership	Gas and/or oil exploration and production	Canada / AJ	Membership interest		60.0%
Direct Energy LP	Energy supply	United States / AK	Membership interest		100.0%
Direct Energy Partnership	Energy supply	Canada / A	Membership interest		100.0%
Direct Energy Resources Partnership	Holding company	Canada / A	Membership interest		100.0%
Finance Scotland CEPS Limited Partnership	Group financing	United Kingdom / O	Membership interest		100.0%
Finance Scotland CPP Limited Partnership	Group financing	United Kingdom / O	Membership interest		100.0%
Finance Scotland CPS Limited Partnership	Group financing	United Kingdom / O	Membership interest		100.0%
First Choice Power LP	Energy supply and/or services	United States / AK	Membership interest		100.0%
First Choice Power Special Purpose LP	Energy supply and/or services	United States / AK	Membership interest		100.0%
Ignite Social Enterprise LP	Social enterprise investment fund	United Kingdom / C	Membership interest		100.0%
WTU Retail Energy LP	Energy supply	United States / D	Membership interest		100.0%

(i) For list of registered addresses, refer to note S10(d).

The following partnerships are fully consolidated into the Group accounts and the Group has taken advantage of the exemption (as confirmed by regulation 7 of the Partnerships (Accounts) Regulations 2008) not to prepare or file separate accounts for these entities:

- Finance Scotland CEPS Limited Partnership
- Finance Scotland CPP Limited Partnership
- Finance Scotland CPS Limited Partnership
- Centrica Finance Limited Partnership
- Ignite Social Enterprise Limited Partnership.

Notes to the Financial Statements

Supplementary information

S10. RELATED UNDERTAKINGS

(c) Joint arrangements and associates

31 December 2015	Principal activity	Country of incorporation/ registered address key (i)	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Joint ventures (ii)					
509760 Alberta Ltd. (iii)	Gas and/or oil exploration and production	Canada / AL	Ordinary shares		43.0%
Allegheny Solar 1 LLC (iv)	Energy supply and/or services	United States / AM	Membership interest		40.0%
Celtic Array Limited	Dormant	United Kingdom / C	Ordinary shares		50.0%
Glens of Foudland Wind Farm Limited	Operation of an onshore windfarm	United Kingdom / C	Ordinary shares		50.0%
GLID Wind Farms TopCo Limited	Holding company	United Kingdom / C	Ordinary shares		50.0%
Inner Dowsing Wind Farm Limited	Operation of an offshore windfarm	United Kingdom / O	Ordinary shares		50.0%
Lincs Wind Farm Limited	Operation of an offshore windfarm	United Kingdom / O	Ordinary shares		50.0%
Lynn Wind Farm Limited	Operation of an offshore windfarm	United Kingdom / C	Ordinary shares		50.0%
Manheim CNG Center LLC	Energy supply and/or services	United States / D	Membership interest		50.0%
Rhiannon Wind Farm Limited	Dormant	United Kingdom / C	Ordinary shares		50.0%
Three Rivers Solar 1 LLC	Energy supply and/or services	United States / AM	Membership interest		40.0%
Three Rivers Solar 2 LLC (iv)	Energy supply and/or services	United States / AM	Membership interest		40.0%
Associates (ii)					
Dalkia Chp Limited (v)	Energy supply and power generation	Republic of Ireland / AN	Ordinary shares		20.0%
Lake Acquisitions Limited	Holding company	United Kingdom / AO	Ordinary shares		20.0%

(i) For list of registered addresses, refer to note S10(d).
(ii) Further information on the principal joint ventures and associate investments held by the Group is disclosed in notes 6 and 14.
(iii) 509760 Alberta Ltd. was renamed during the year (previously Phillips PC Resources Ltd.).
(iv) Acquired in 2015.
(v) In February 2016 Dalkia Chp Limited was renamed to Veolia CHP Ireland Limited.

All Group companies principally operate within their country of incorporation.

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS
(d) List of registered addresses

Registered address key	Address
A	2323 32nd Avenue N.E., Calgary, AB T2E 6Z3, Canada
B	1700-1185 West Georgia Street, Vancouver BC V6E 4E6, Canada
C	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom
D	3411 Silverside Road Rodney Building #104, Wilmington, DE 19810, United States
E	Purdy's Wharf Tower One, 1959 Upper Water Street, Halifax NS B3J 3N2, Canada
F	12747 Olive Boulevard #300, St. Louis, MO 63141, United States
G	1521 Concord Pike #303, Wilmington, DE 19803, United States
H	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
I	2 Wisconsin Circle #700, Chevy Chase, MD 20815, United States
J	1 Warrington Place, Dublin, 2, Republic of Ireland
K	20 Kingston Road, Staines-upon-Thames, TW18 4LG, United Kingdom
L	St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
M	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man
N	Polarisavenue 39, 2132 JH Hoofddorp, Netherlands
O	IQ Building, 15 Justice Mill Lane, Aberdeen, AB11 6EQ, United Kingdom
P	47 Esplanade, St Helier, JE1 0BD, Jersey
Q	L-107, Lajpat Nagar-2, New Delhi, 110024, India
R	26 New Street, St Helier, JE2 3RA, Jersey
S	Sterling Towers, 20 Marina, Lagos, Nigeria
T	Veritasveien 25, 4007 Stavenger, Norway
U	Eleven Albion, Corner Albion and Dere Streets, Port of Spain, Trinidad and Tobago
V	No 12A Sooty Street, Ambefield Glen Cnr, Reddersburg & Virginia Street, Rooihuiskraal, North Centurion Gauteng, 0175, South Africa
W	333 Bay Street, Toronto ON M5H 2R2, Canada
X	15 North Mill Street, Nyack, NY 10960, United States
Y	105 E. Jefferson Boulevard #800, South Bend, IN 46601, United States
Z	1 More London Place, London, SE1 2AF, United Kingdom
AA	1430 Truxtun Avenue, Bakersfield, CA 93301, United States
AB	350 S. Northwest Highway #300, Park Ridge, IL 60068, United States
AC	P.O. Box 25, Regency Court, Glategny Esplanade, St Peter Port, GY1 3AP, Guernsey
AD	11380 Prosperity Farms Road #221E, Palm Beach Gardens, FL 33410, United States
AE	13 Castle Street, St Helier, JE4 5UT, Jersey
AF	5200 Willson Road #150, Edina, MN 55424, United States
AG	20 Atir Yeda St., Kfar Saba 44643, Israel
AH	8275 South Eastern Avenue #200, Las Vegas, NV 89123, United States
AI	666 Burrand Street, Park Place, Vancouver, BC V6C 2X8, Canada
AJ	525 8th Ave S.W., Calgary, AB T2P 1G1, Canada
AK	4265 San Felipe #1100, Houston, TX 77027, United States
AL	855 2nd Street S.W., Calgary, AB T2P NJ8, Canada
AM	1209 Orange Street, Wilmington, New Castle County, DE 19801, United States
AN	Innovation House, DCU Innovation Campus, 11 Old Finglas Road, Glasnevin, Dublin, 11, Republic of Ireland
AO	40 Grosvenor Place, London, SW1X 7EN, United Kingdom

Notes to the Financial Statements

Supplementary information

S10. RELATED UNDERTAKINGS

The Directors have determined that the investments in Lake Acquisitions Limited and Lincs Wind Farm Limited are sufficiently material to warrant further disclosure on an individual basis. Accordingly, the Group presents summarised financial information, along with reconciliations to the amounts included in the consolidated Group Financial Statements, for these investees.

Lake Acquisitions Limited

Summarised Statement of Total Comprehensive Income

				2015				2014
Year ended 31 December	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m
Revenue	3,220	644	–	644	3,102	620	–	620
Operating profit before interest and tax	1,351	270	(56)	214	1,209	242	(13)	229
Profit for the year	1,042	208	(26)	182	902	180	–	180
Other comprehensive (loss)/income	(38)	(8)	–	(8)	107	21	–	21
Total comprehensive income	1,004	200	(26)	174	1,009	201	–	201

Summarised Balance Sheet

				2015				2014
31 December	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments (i) £m	Group share £m	Associate information reported to Group £m	Unadjusted 20% share £m	Fair value and other adjustments £m	Group share £m
Non-current assets	12,775	2,555	929	3,484	12,517	2,504	987	3,491
Current assets	2,800	560	13	573	3,102	620	19	639
Current liabilities	(883)	(177)	–	(177)	(945)	(189)	–	(189)
Non-current liabilities	(7,613)	(1,523)	(162)	(1,685)	(7,770)	(1,554)	(201)	(1,755)
Net assets	7,079	1,415	780	2,195	6,904	1,381	805	2,186

(i) Before cumulative impairments of £586 million (2014: £214 million) of the Group's associate investment.

During the year dividends of £166 million (2014: £130 million) were paid by the associate to the Group.

Lincs Wind Farm Limited

Summarised Statement of Total Comprehensive Income

				2015				2014
Year ended 31 December	Joint venture information reported to Group £m	Unadjusted 50% share £m	Fair value and other adjustments £m	Group share £m	Joint venture information reported to Group £m	Unadjusted 50% share £m	Fair value and other adjustments £m	Group share £m
Revenue	125	62	–	62	112	56	–	56
Depreciation and amortisation	(49)	(24)	–	(24)	(48)	(24)	–	(24)
Loss on disposal	–	–	–	–	(7)	(4)	–	(4)
Other costs of sales and operating costs	(45)	(23)	–	(23)	(35)	(17)	–	(17)
Profit before interest and tax	31	15	–	15	22	11	–	11
Net finance cost	(54)	(27)	–	(27)	(66)	(33)	–	(33)
Taxation	13	6	–	6	9	4	–	4
Loss for the year	(10)	(6)	–	(6)	(35)	(18)	–	(18)
Other comprehensive income/(loss)	3	2	–	2	(28)	(14)	–	(14)
Total comprehensive loss	(7)	(4)	–	(4)	(63)	(32)	–	(32)

Notes to the Financial Statements

Supplementary information

S10. RELATED UNDERTAKINGS

Summarised Balance Sheet

31 December	Joint venture information reported to Group (i) £m 2015	Unadjusted 50% share £m 2015	Fair value and other adjustments £m 2015	Group share £m 2015	Joint venture information reported to Group (i) £m 2014	Unadjusted 50% share £m 2014	Fair value and other adjustments £m 2014	Group share £m 2014
Non-current assets	**943**	**472**	**3**	**475**	903	452	2	454
Current assets (i)	**116**	**58**	**–**	**58**	84	42	–	42
Current liabilities (i)	**(187)**	**(94)**	**–**	**(94)**	(194)	(97)	–	(97)
Non-current liabilities (i)	**(730)**	**(365)**	**–**	**(365)**	(644)	(322)	–	(322)
Net assets	**142**	**71**	**3**	**74**	149	75	2	77

(i) Current assets includes £76 million (2014: £46 million) of cash and cash equivalents. Non-current liabilities and current liabilities include £682 million (2014: £624 million) and £59 million (2014: £64 million) of borrowings respectively.

Other material joint arrangements owned by the Group that are classified as joint operations and accounted for in accordance with IFRS 11 (see note S2) are detailed below. This list excludes interests in fields where there is no party with overall control since the arrangement does not fulfil the IFRS 11 definition of joint control.

Joint operations – fields/assets

31 December 2015	Location	Percentage holding in ordinary shares and net assets
Cygnus	UK North Sea	49

Non-controlling interests

The Group has two subsidiary undertakings with a non-controlling interest: CQ Energy Canada Partnership and its 100% subsidiary, CQ Energy Canada Resources Partnership.

31 December	Non-controlling interests % 2015	Loss for the year £m 2015	Total comprehensive loss £m 2015	Total equity £m 2015	Dividends paid to non-controlling interests £m 2015	Non-controlling interests % 2014	Profit for the year £m 2014	Total comprehensive income £m 2014	Total equity £m 2014	Dividends paid to non-controlling interests £m 2014
CQ Energy Canada Partnership	**40**	**(137)**	**(172)**	**164**	**–**	40	7	6	336	(18)

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of CQ Energy Canada Partnership and its subsidiary that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

Summarised Statement of Total Comprehensive Income

Year ended 31 December	2015 £m	2014 £m
Revenue	**252**	261
(Loss)/profit for the year	**(342)**	17
Other comprehensive loss	**(88)**	(2)
Total comprehensive (loss)/income	**(430)**	15

Summarised Balance Sheet

31 December	2015 £m	2014 £m
Non-current assets	**922**	1,454
Current assets	**70**	88
Current liabilities	**(96)**	(105)
Non-current liabilities	**(432)**	(543)
Net assets	**464**	894

Summarised Cash Flow

Year ended 31 December	2015 £m	2014 £m
Net decrease in cash and cash equivalents	**(6)**	(15)

Notes to the Financial Statements
Supplementary information

S10. RELATED UNDERTAKINGS

Transactions with non-controlling interests

On 1 October 2014, Direct Energy Resources Partnership, the wholly owned immediate parent undertaking of CQ Energy Canada Partnership, contributed the Group's wholly owned gas and liquids assets in Canada to CQ Energy Canada Partnership in return for a capital stake in the partnership of C$538 million (£297 million). At the same time, the non-controlling interest subscribed for a further C$215 million (£119 million) of capital in the partnership for cash. The cash was used to repay, in part, the Group's partnership loan to CQ Energy Canada Partnership. Group and non-controlling interests partnership loans of C$144 million and C$239 million (£80 million and £132 million respectively) were then converted to capital, leaving Group and non-controlling interests partnership loans of C$30 million and C$20 million (£17 million and £11 million respectively) outstanding.

From a Group perspective, the gas and liquid assets were not disposed of, since they remained controlled by a subsidiary of the Group. Instead, this was a transaction with the non-controlling interest who paid C$215 million (£119 million) for a share of additional Group assets. This payment, together with the conversion of C$239 million (£132 million) partnership loans, and a reduction in the Group's deferred tax liability of C$59 million (£32 million) since the non-controlling interest was now responsible for 40% of the tax consequences of the contributed assets, resulted in an increase in the non-controlling interest of C$513 million (£283 million) in 2014. In the underlying financial information of the partnership, predecessor accounting was followed.

Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity (note II) £m	Capital redemption reserve £m	**Total equity £m**
1 January 2014 (as previously reported)	321	931	2,230	(371)	16	3,127
Effect of changes in accounting policies	–	–	20	(11)	–	9
1 January 2014	321	931	2,250	(382)	16	3,136
Profit for the year	–	–	884	–	–	884
Other comprehensive income/(loss):						
Revaluation of available-for-sale securities	–	–	–	5	–	5
Cash flow hedges – net losses	–	–	–	(29)	–	(29)
Cash flow hedges – transferred to income and expense	–	–	–	29	–	29
Actuarial loss	–	–	–	(2)	–	(2)
Other equity movements:						
Employee share schemes	–	–	–	71	–	71
Purchase of treasury shares	–	–	(2)	(420)	–	(422)
Cancellations of shares held in treasury	(10)	–	(549)	549	10	–
Dividends paid to equity holders	–	–	(867)	–	–	(867)
Taxation on share-based payments	–	–	–	(5)	–	(5)
31 December 2014	311	931	1,716	(184)	26	2,800
Profit for the year	–	–	303	–	–	**303**
Other comprehensive income/(loss):						
Revaluation of available-for-sale securities	–	–	–	1	–	**1**
Cash flow hedges – net gains	–	–	–	4	–	**4**
Cash flow hedges – transferred to income and expense	–	–	–	(2)	–	**(2)**
Actuarial loss	–	–	–	(14)	–	**(14)**
Taxation on above items	–	–	–	1	–	**1**
Other equity movements:						
Employee share schemes	–	–	2	58	–	**60**
Scrip dividend	6	204	–	–	–	**210**
Dividends paid to equity holders	–	–	(598)	–	–	**(598)**
Taxation on share-based payments	–	–	–	(2)	–	**(2)**
31 December 2015	**317**	**1,135**	**1,423**	**(138)**	**26**	**2,763**

As permitted by section 408(3) of the Companies Act 2006 no Income Statement or Statement of Comprehensive Income is prepared.

The Directors propose a final dividend of 8.43 pence per share (totalling £427 million) for the year ended 31 December 2015. Details of the dividends are given in note 11 to the consolidated Group Financial Statements.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the consolidated Group Financial Statements.

The notes on pages 171 to 180 form part of these Financial Statements, along with note 25 to the consolidated Group Financial Statements.

Company Balance Sheet

31 December	Notes	2015 £m	2014 (restated) (i) £m
Non-current assets			
Property, plant and equipment	IV	–	2
Other intangible assets	V	4	28
Investments	VI	2,306	2,262
Deferred tax	VII	6	7
Trade and other receivables	VIII	1,411	241
Derivative financial instruments	IX	160	178
Retirement benefit asset	XVI	9	22
Securities	XI	200	204
		4,096	2,944
Current assets			
Trade and other receivables	VIII	10,925	12,167
Derivative financial instruments	IX	215	202
Cash and cash equivalents	XII	441	132
		11,581	12,501
Total assets		15,677	15,445
Current liabilities			
Derivative financial instruments	IX	(207)	(206)
Trade and other payables	XIII	(6,282)	(5,341)
Financial liabilities	XIV	(428)	(1,608)
		(6,917)	(7,155)
Non-current liabilities			
Derivative financial instruments	IX	(64)	(132)
Trade and other payables	XIII	(92)	(156)
Provisions for liabilities	XV	(5)	(4)
Retirement benefit liabilities	XVI	(50)	(49)
Financial liabilities	XIV	(5,786)	(5,149)
		(5,997)	(5,490)
Total liabilities		(12,914)	(12,645)
Net assets		2,763	2,800
Share capital	XVII	317	311
Share premium	XVII	1,135	931
Capital redemption reserve	XVII	26	26
Retained earnings (ii)	XVII	1,423	1,716
Other equity	II	(138)	(184)
Total shareholders' equity		2,763	2,800

(i) Restated based on transition to FRS 101 from UK GAAP, as shown in note XX.
(ii) Retained earnings includes a net profit after tax of £303 million (2014: £884 million).

The Financial Statements on pages 169 to 180, of which the notes on pages 171 to 180 form part, along with note 25 to the consolidated Group Financial Statements, were approved and authorised for issue by the Board of Directors on 18 February 2016 and were signed on its behalf by:

Iain Conn
Chief Executive

Jeff Bell
Group Chief Financial Officer

Notes to the Company Financial Statements

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Basis of preparation

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 101: 'Reduced Disclosure Framework' ('FRS 101'). In preparing these Financial Statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 the Company has applied IFRS 1: 'First-time adoption of International Financial Reporting Standards' whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note XX.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these Financial Statements:

- investments in subsidiaries – on transition to FRS 101, investments in subsidiaries are measured at deemed cost which, in relation to the Company's investments in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited is the previous UK GAAP carrying value of the investment.

As the Company is adopting IFRS for its separate Financial Statements later than it adopted IFRS for its consolidated Group Financial Statements, the assets and liabilities in these Financial Statements have been measured at the same amounts as in those consolidated Group Financial Statements.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- comparative period reconciliations for tangible fixed assets and intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRSs.

The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these Financial Statements:

- presentation of IAS format Financial Statements; and
- exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101).

Additionally, no Income Statement or Statement of Comprehensive Income is presented for the Company as permitted by the Companies Act 2006 (section 408). The Company profit after tax for the year was £303 million (2014: £884 million).

As the consolidated Group Financial Statements of Centrica plc, which are available from the registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2: 'Share-based payment' in respect of Group settled share-based payments; and
- certain disclosures required by IFRS 13: 'Fair value measurement' and the disclosures required by IFRS 7: 'Financial instruments: disclosures'.

Measurement convention

The Company Financial Statements are prepared on the historical cost basis except for the following assets and liabilities, which are stated at their fair values: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, and the assets of defined benefit pension schemes. The liabilities of defined benefit pension schemes are measured at the projected unit method of valuation. These Financial Statements are rounded at the nearest million pounds sterling. Unless required or permitted by an IFRS, assets and liabilities or income and expenses, are not offset.

Going concern

The accounts have been prepared on a going concern basis, as described in the Directors' Report and note 24(b) of the consolidated Group Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty are set out in note 3 of the consolidated Group Financial Statements.

The key accounting judgement of the Company is the carrying value of its investments in subsidiary undertakings and receivables from these undertakings. The Company does not deem its investments in subsidiary undertakings to be impaired and supports this judgement through its impairment review process as detailed below. This impairment review process identified that some receivables from Group undertakings were not fully recoverable and accordingly a bad debt provision of £262 million (2014: £673 million) was recognised against receivables during the year. In addition, debt waivers totalling £25 million (2014: nil) occurred during the year.

Notes to the Company Financial Statements

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Key sources of estimation uncertainty include:

- the fair value of derivative financial instruments classified as level 2 within the fair value hierarchy as a result of the use of valuation techniques, in addition to published price quotations in active markets, to determine these values; and
- the allocation of the Company's share of pension scheme surplus/deficit, as detailed further within the accounting policies section of these Financial Statements.

New standards effective during the year

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements and in preparing the opening FRS 101 Balance Sheet at 1 January 2014 for the purposes of the transition to FRS 101 (refer to note XX).

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments as detailed in the Remuneration Report on pages 63 to 79 and in note S2 to the consolidated Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. When these costs are recharged to the subsidiary undertaking, the investment balance is reduced accordingly.

Fair value is measured using methods detailed in note S2 to the consolidated Group Financial Statements.

Foreign currencies

The Company's functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities and transactions are taken to the Income Statement.

Property, plant and equipment

Property, plant and equipment (PP&E) is held at cost, less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and any costs directly attributable to bringing the asset into operation. The purchase price is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure is expensed as incurred.

PP&E is depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to 10 years. Depreciation of assets under construction commences when the asset is operational.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of purchased application software, for example investments in customer relationship management and billing systems, includes contractors' charges, materials, directly attributable labour and directly attributable overheads. Intangible assets are amortised on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to 10 years. Amortisation of assets under construction commences when the asset is operational.

Investments

Fixed asset investments in subsidiaries' shares are held at cost in accordance with IAS 27: 'Separate financial statements', less any provision for impairment as necessary.

Impairment

The Company's accounting policies in respect of impairment of PP&E, intangible assets and financial assets are consistent with those of the Group.

The carrying values of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Receivables from Group undertakings are compared to their recoverable amount which is also assessed using the same estimated discounted future cash flow for each undertaking as described above.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

Notes to the Company Financial Statements

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease.

Pensions and other post employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post employment benefits, on which further detail is provided in note 22 to the consolidated Group Financial Statements.

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax assets that are not eligible for offset against deferred tax liabilities are recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Financial instruments

The Company's accounting policies for financial instruments are consistent with those of the Group as disclosed in note S2 to the consolidated Group Financial Statements. The Company's financial risk management policies are consistent with those of the Group and are described in the Strategic Report – Principal Risks and Uncertainties on pages 38 to 42 and in note S3 to the consolidated Group Financial Statements.

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefit will be required to settle the obligation.

Notes to the Company Financial Statements

II. OTHER EQUITY

	Cash flow hedging reserve £m	Actuarial gains and losses reserve £m	Available-for-sale reserve (AFS) £m	Treasury and own shares reserve £m	Share-based payments reserve £m	Total £m
1 January 2014	(10)	(33)	17	(456)	100	(382)
Revaluation of available-for-sale securities	–	–	5	–	–	5
Actuarial loss	–	(2)	–	–	–	(2)
Employee share schemes:						
Increase in own shares	–	–	–	(7)	–	(7)
Exercise of awards	–	–	–	78	(39)	39
Value of services provided	–	–	–	–	39	39
Purchase of treasury shares	–	–	–	(420)	–	(420)
Cancellation of shares held in treasury	–	–	–	549	–	549
Cash flow hedges:						
Net losses	(29)	–	–	–	–	(29)
Transferred to income and expense	29	–	–	–	–	29
Taxation on above items	–	1	(1)	–	(5)	(5)
31 December 2014	(10)	(34)	21	(256)	95	(184)
Revaluation of available-for-sale securities	–	–	1	–	–	**1**
Actuarial loss	–	(14)	–	–	–	**(14)**
Employee share schemes:						
Exercise of awards	–	–	–	69	(45)	**24**
Value of services provided	–	–	–	–	45	**45**
Increase in own shares	–	–	–	(11)	–	**(11)**
Cash flow hedges:						
Net gains	4	–	–	–	–	**4**
Transferred to income and expense	(2)	–	–	–	–	**(2)**
Taxation on above items	(1)	2	–	–	(2)	**(1)**
31 December 2015	**(9)**	**(46)**	**22**	**(198)**	**93**	**(138)**

III. DIRECTORS AND EMPLOYEES

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 63 to 79 form part of these Financial Statements. Information on the main employee share-based payments is given in note S2 to the consolidated Group Financial Statements. Details of the remuneration of key management personnel are given in note S8 to the consolidated Group Financial Statements.

Employee costs

Year ended 31 December	**2015 £m**	2014 £m
Wages and salaries	**56**	50
Social security costs	**5**	5
Pension and other post retirement benefits costs	**6**	7
Share scheme costs	**(1)**	2
	66	64

Average number of employees during the year

Year ended 31 December	**2015 Number**	2014 Number
Administration	**319**	300
Power	**197**	202
	516	502

Notes to the Company Financial Statements

IV. PROPERTY, PLANT AND EQUIPMENT

	2015 £m
Cost	
1 January	38
Disposals (i)	(38)
31 December	–
Accumulated depreciation	
1 January	36
Disposals (i)	(36)
31 December	–
NBV at 31 December	–

(i) Disposals include £33 million of gross assets which have been retired and have a net book value of zero.

V. OTHER INTANGIBLE ASSETS

	2015 £m
Cost	
1 January	28
Additions	3
Disposals	(26)
31 December	5
Accumulated depreciation	
1 January	–
Charge for the year	1
31 December	1
NBV at 31 December	4

VI. INVESTMENTS IN SUBSIDIARIES

	2015 (i) £m	2014 (i) £m
Cost		
1 January	2,262	2,225
Additions	44	37
31 December	2,306	2,262

(i) Additions include the net change in shares to be awarded under employee share schemes to employees of Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England. Related undertakings are listed in note S10 to the consolidated Group Financial Statements.

The Directors believe that the carrying value of the investments is supported by their realisable value.

VII. DEFERRED TAX

	1 January 2015 £m	Charge to income £m	Reserves (charge)/credit £m	31 December 2015 £m
Deferred tax assets/(liabilities) arising on:				
Pension schemes	6	–	2	8
Other	1	–	(3)	(2)
	7	–	(1)	6

Other deferred corporation tax assets primarily relate to other timing differences. Unrecognised deferred corporation tax assets amount to nil at the balance sheet date (2014: nil).

Notes to the Company Financial Statements

VIII. TRADE AND OTHER RECEIVABLES

31 December	Due within one year (i) £m 2015	Due after more than one year (ii) £m 2015	Due within one year (i) £m 2014	Due after more than one year (ii) £m 2014
Amounts owed by Group undertakings	**10,921**	**1,402**	12,131	45
Other loans and receivables	**–**	**–**	32	189
Prepayments	**4**	**9**	4	7
	10,925	**1,411**	12,167	241

(i) The amounts receivable by the Company include £9,128 million (2014: £4,239 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.9% and 5.5% per annum during 2015 (2014: 1.2% and 3.1%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand. Amounts receivable by the Company are stated net of provisions of £1,082 million (2014: £820 million).

(ii) The amounts receivable by the Company due after more than one year include £1,360 million (2014: nil) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.7% and 6.0% per annum during 2015. The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable in two to three years.

IX. DERIVATIVE FINANCIAL INSTRUMENTS

31 December	Due within one year £m 2015	Due after more than one year £m 2015	Total £m 2015	Due within one year £m 2014	Due after more than one year £m 2014	Total £m 2014
Derivative financial assets	215	160	**375**	202	178	380
Derivative financial liabilities	(207)	(64)	**(271)**	(206)	(132)	(338)

X. FINANCIAL INSTRUMENTS

(a) Determination of fair values

The Company's policy for the classification and valuation of financial instruments carried at fair value into one of the three hierarchy levels determined in accordance with IFRS 13 are consistent with those of the Group, as detailed in note S6 to the consolidated Group Financial Statements.

(b) Financial instruments carried at fair value

31 December	Level 1 £m 2015	Level 2 £m 2015	Level 3 £m 2015	Total £m 2015	Level 1 £m 2014	Level 2 £m 2014	Level 3 £m 2014	Total £m 2014
Financial assets designated as fair value through profit or loss:								
Treasury gilts	124	–	–	**124**	129	–	–	129
Derivative financial assets:								
Held for trading:								
Foreign exchange derivatives	–	222	–	**222**	–	212	–	212
In hedge accounting relationships:								
Interest rate derivatives	–	129	–	**129**	–	158	–	158
Foreign exchange derivatives	–	24	–	**24**	–	10	–	10
Total financial assets at fair value through profit or loss	124	375	–	**499**	129	380	–	509
Available for sale financial assets:								
Debt instruments	58	–	–	**58**	58	–	–	58
Equity instruments	18	–	–	**18**	17	–	–	17
Total financial assets at fair value	200	375	–	**575**	204	380	–	584
Derivative financial liabilities:								
Held for trading:								
Interest rate derivatives	–	(25)	–	**(25)**	–	(30)	–	(30)
Foreign exchange derivatives	–	(175)	–	**(175)**	–	(228)	–	(228)
In hedge accounting relationships:								
Interest rate derivatives	–	(3)	–	**(3)**	–	(2)	–	(2)
Foreign exchange derivatives	–	(68)	–	**(68)**	–	(78)	–	(78)
Total financial liabilities	–	(271)	–	**(271)**	–	(338)	–	(338)
Total financial instruments	**200**	**104**	**–**	**304**	204	42	–	246

Notes to the Company Financial Statements

XI. SECURITIES

31 December	2015 £m	2014 £m
Treasury gilts designated at fair value through profit or loss	124	129
Debt instrument	58	58
Equity instrument	18	17
Short-term investments	**200**	204

£76 million (2014: £75 million) of investments were held in trust, on behalf of the Company, as security in respect of the Centrica Unfunded Pension Scheme (refer to note XVI).

XII. CASH AND CASH EQUIVALENTS

31 December	2015 £m	2014 £m
Cash at bank and in hand	32	–
Deposits at call (i)	409	132
	441	132

(i) Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition.

XIII. TRADE AND OTHER PAYABLES

	2015		2014	
31 December	Due within one year £m	Due after more than one year £m	Due within one year £m	Due after more than one year £m
Amounts owed to Group undertakings (i)	(6,223)	(92)	(5,289)	(153)
Other taxation and social security	(5)	–	(1)	–
Accruals and other creditors	(54)	–	(51)	(3)
	(6,282)	(92)	(5,341)	(156)

(i) The amounts payable by the Company include £4,980 million (2014: £4,474 million) that bears interest at a quarterly rate determined by Group treasury and linked to the Group cost of funds. The quarterly rates ranged between 1.9% and 5.5% per annum during 2015 (2014: 1.2% and 3.1%).

XIV. FINANCIAL LIABILITIES

	2015		2014	
31 December	Due within one year £m	Due after more than one year £m	Due within one year £m	Due after more than one year £m
Bank loans and overdrafts	–	(222)	(437)	(312)
Commercial paper	–	–	(735)	–
Bonds	(308)	(5,564)	(335)	(4,837)
Interest accruals	(120)	–	(101)	–
	(428)	(5,786)	(1,608)	(5,149)

Disclosures in respect of the Group's financial liabilities are provided in note 24 to the consolidated Group Financial Statements.

XV. PROVISIONS FOR LIABILITIES

	1 January 2015 £m	Charged in the year £m	Utilised £m	31 December 2015 £m
Other provisions	(4)	(3)	2	(5)

Other provisions principally represent estimated liabilities for contractual settlements, business restructuring and National Insurance in respect of employee share scheme liabilities. The National Insurance provision is based on a share price of 218.10 pence at 31 December 2015 (2014: 279.00 pence). The majority of the provisions are expected to be utilised by 2017.

XVI. PENSIONS

(a) Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS), and Centrica Unfunded Pension Scheme. Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the consolidated Group Financial Statements.

Together with the Centrica Engineers Pensions Scheme (CEPS), CPP and CPS form the significant majority of the Group's and Company's defined benefit obligation and are referred to below and in the consolidated Group Financial Statements as the 'Registered Pension Schemes'.

(b) Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the consolidated Group Financial Statements.

Notes to the Company Financial Statements

XVI. PENSIONS

(c) Movements in the year

	2015 Pension liabilities £m	2015 Pension assets £m	2014 Pension liabilities £m	2014 Pension assets £m
1 January	**(366)**	**339**	(293)	269
Items included in the Company Income Statement:				
Current service cost	**(6)**	**–**	(6)	–
Past service credit	**1**	**–**	1	–
Interest on scheme liabilities	**(14)**	**–**	(14)	–
Expected return on scheme assets	**–**	**13**	–	13
Other movements:				
Actuarial gain/(loss)	**7**	**(21)**	(61)	59
Employer contributions	**–**	**6**	–	6
Benefits paid from schemes	**10**	**(10)**	8	(8)
Transfers from other Group companies	**–**	**–**	(1)	–
31 December	**(368)**	**327**	(366)	339

Presented in the Company Balance Sheet as:

31 December	2015 £m	2014 £m
Defined benefit pension assets	**9**	22
Defined benefit pension liabilities	**(50)**	(49)
	(41)	(27)

Of the pension schemes liabilities, £50 million (2014: £49 million) relates to the Centrica Unfunded Pension Scheme.

(d) Analysis of the actuarial (losses)/gains recognised in reserves (note II)

Year ended 31 December	2015 £m	2014 £m
Actuarial (loss)/gain (actual return less expected return on pension scheme assets)	**(21)**	59
Experience (loss)/gain arising on the scheme liabilities	**(7)**	1
Changes in assumptions underlying the present value of the schemes' liabilities	**14**	(62)
Actuarial loss recognised in reserves before adjustment for taxation	**(14)**	(2)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	**(43)**	(41)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	**(57)**	(43)

(e) Pension scheme contributions

Note 22 to the consolidated Group Financial Statements provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012 and 2013. Under IAS 19 'Employee benefits', the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £4 million of employer contributions during 2016 at an average rate of 25% of pensionable pay.

(f) Pension scheme assets

31 December	Quoted £m	Unquoted £m	2015 £m	Quoted £m	Unquoted £m	2014 £m
Equities	**1,867**	**219**	**2,086**	1,931	211	2,142
Diversified asset funds	**47**	**–**	**47**	42	113	155
Corporate bonds	**1,717**	**–**	**1,717**	1,794	–	1,794
High-yield debt	**167**	**780**	**947**	182	275	457
Liability matching assets	**874**	**556**	**1,430**	1,052	415	1,467
Property	**–**	**315**	**315**	–	324	324
Cash pending investment	**60**	**–**	**60**	61	–	61
Asset-backed contribution assets	**–**	**243**	**243**	–	312	312
Group pension scheme assets (i)	**4,732**	**2,113**	**6,845**	5,062	1,650	6,712

	2015 £m	2014 £m
Company share of the above	**327**	339

(i) Total pension scheme assets for the UK pension schemes.

Notes to the Company Financial Statements

XVII. SHAREHOLDERS' EQUITY AND RESERVES

The Directors propose a final dividend of 8.43 pence per share (totalling £427 million) for the year ended 31 December 2015. Details of the dividends are given in note 11 to the consolidated Group Financial Statements.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 25 to the consolidated Group Financial Statements. Movements in equity are shown in the Company Statement of Changes in Equity.

XVIII. COMMITMENTS

At 31 December 2015, the Company had commitments of £67 million (2014: £99 million) relating to contracts for outsourced services, £1 million (2014: £2 million) of annual lease payments in respect of land and buildings non-cancellable operating lease commitments expiring in less than one year, and £5 million (2014: £6 million) of guaranteed operating commitments of a subsidiary undertaking expiring in more than five years. The Company's commitment in respect of its agreement with Cheniere is detailed in note 23 to the consolidated Group Financial Statements.

The Company enters into parent company guarantee arrangements and letters of credit in relation to its subsidiary undertakings. The Company has assessed the likelihood of these guarantees being called, or letters of credit being drawn upon, as remote.

XIX. RELATED PARTIES

During the year the Company received interest and fees on its loan to Lincs Wind Farm Limited of £11 million (2014: £14 million) and received repayments of £189 million (2014: £73 million).

XX. OPENING BALANCE SHEET ADJUSTMENTS INCLUDING FRS 101 FROM UK GAAP

31 December 2014	Notes	UK GAAP £m	Effect of transition including FRS 101 adjustments £m	FRS 101 £m
Non-current assets				
Property, plant and equipment	(a)	30	(28)	2
Other intangible assets	(a)	–	28	28
Investments	(b)	2,451	(189)	2,262
Deferred tax	(d), (e)	–	7	7
Trade and other receivables	(b), (c)	–	241	241
Derivative financial instruments	(c), (d)	–	178	178
Retirement benefit asset		22	–	22
Securities		204	–	204
		2,707	237	2,944
Current assets				
Trade and other receivables	(b), (c), (d)	11,700	467	12,167
Derivative financial instruments	(c), (d)	–	202	202
Cash and cash equivalents		132	–	132
		11,832	669	12,501
Total assets		14,539	906	15,445
Current liabilities				
Derivative financial instruments	(c), (d)	–	(206)	(206)
Trade and other payables	(c), (d)	(4,816)	(525)	(5,341)
Financial liabilities		(1,608)	–	(1,608)
		(6,424)	(731)	(7,155)
Non-current liabilities				
Derivative financial instruments	(c), (d)	–	(132)	(132)
Trade and other payables	(c), (d)	(118)	(38)	(156)
Provisions for liabilities		(4)	–	(4)
Retirement benefit liabilities	(e)	(43)	(6)	(49)
Financial liabilities		(5,149)	–	(5,149)
		(5,314)	(176)	(5,490)
Total liabilities		(11,738)	(907)	(12,645)
Net assets		2,801	(1)	2,800
Share capital		311	–	311
Share premium		931	–	931
Capital redemption reserve		26	–	26
Retained earnings	(f)	1,704	12	1,716
Other equity	(f)	(171)	(13)	(184)
Total shareholders' equity		2,801	(1)	2,800

Notes to the Company Financial Statements

XX. OPENING BALANCE SHEET ADJUSTMENTS INCLUDING FRS 101 FROM UK GAAP

Notes to the reconciliation of equity

(a) Under FRS 101, only computer software that is integral to a related item of hardware should be included as PP&E. All other computer software should be recorded as an intangible asset. The impact at transition was to reclassify £28 million of application software classified as PP&E under UK GAAP to intangible assets.

(b) Under FRS 101, the Company's investment of £189 million in the form of a long-term loan to certain joint ventures of the Group has been designated a non-current loan and receivable balance. The Company previously recognised this asset as an investment, however on transition, the investment is accounted for in accordance with IAS 39: 'Financial instruments: recognition and measurement'. Under FRS 101, the non-current portion of assets previously shown as current under UK GAAP have now been reclassified as non-current trade and other receivables (£15 million).

(c) As part of the transition to FRS 101, the Company reviewed its accounting policies and practices with respect to intercompany transactions. As a result, certain adjustments have been made to intercompany balances to reflect the expected nature in which they will be settled, to improve the clarity for the users of the Financial Statements in light of guidance in IAS 32: 'Financial instruments: presentation'.

(d) As part of the FRS 101 transition, financial derivative instruments netted within trade and other receivables and trade and other payables (previously named as debtors and other creditors under UK GAAP) have been disclosed separately on a gross basis. Deferred tax is also now separately disclosed.

(e) As part of the FRS 101 transition, a deferred tax asset of £6 million associated with the Company's defined benefit pension scheme and previously offset against the scheme obligation has been presented separately in the Balance Sheet under FRS 101. Under FRS 101, deferred tax on share-based payments is calculated on the difference between the intrinsic value of shares expected to vest compared with the expected tax deduction based on the year end share price. On transition, this resulted in a reduction in deferred tax assets of £1 million being recognised.

(f) As part of the FRS 101 transition, a separate available-for-sale reserve and actuarial gains and losses reserve have been presented in Other equity. Under UK GAAP these items were recognised within retained earnings.

Reconciliation of profit

Under UK GAAP, the Company was not required to, and did not, present a Statement of Comprehensive Income. There are two adjusting items on transition to FRS 101:

- the first relates to the application of IAS 19 to the calculation of finance income and expense on the Company's defined benefit pension scheme assets and liabilities. Under UK GAAP, FRS 17 required the calculation of a gross finance income and expense on scheme assets and liabilities through the application of an expected asset rate of return and discount rate respectively. IAS 19 prohibits the use of a separate expected rate of return on scheme assets and requires application of the discount rate to the net scheme asset or liability. This has the impact of reducing the net financing income in relation to pension schemes and the impact in the year of transition increases the financing charge by £2 million; and
- under IAS 12: 'Income taxes', the deferred tax arising on share-based payments is recalculated resulting in an increase in the deferred tax charge of £1 million.

Explanation of material adjustments to the Cash Flow Statement for 31 December 2014

Under UK GAAP and FRS 101, the Company is not required to, and did not, prepare a Cash Flow Statement.

Reconciliation of equity at 1 January 2014

The net assets as at 1 January 2014 under UK GAAP were £3,127 million and following transition to FRS 101 were adjusted to £3,136 million. The difference relates to differences in deferred tax balances calculated under IAS 12. All other FRS 101 adjustments upon transition have a nil impact on the total equity position. The remaining adjustments relate to balance sheet reclassifications which are described above. See Company Statement of Changes in Equity for further details.

Gas and Liquids Reserves (Unaudited)

The Group's estimates of reserves of gas and liquids are reviewed as part of the full year reporting process and updated accordingly.

A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by DeGoyler and MacNaughton for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

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

The principal fields in Europe are Kvitebjorn, Statfjord, Cygnus, South Morecambe, Maria, Chiswick, Valemon, Butch and Rhyl. The principal field in Trinidad and Tobago is NCMA-1. The principal field in Centrica Storage is the Rough field. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

The principal fields in Canada are Panther, Wildcat Hills, Alderson, Stolberg, Hanlan and Ferrier. The Canadian field reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Canada (i)	Trinidad and Tobago (ii)	Centrica Energy	Centrica Storage	**Total**
1 January 2015	1,631	909	109	**2,649**	182	**2,831**
Revisions of previous estimates (iii)	(6)	28	(19)	**3**	–	**3**
Disposals of reserves in place (iv)	–	(4)	–	**(4)**	–	**(4)**
Extensions, discoveries and other additions (v)	–	30	–	**30**	–	**30**
Production (vi)	(203)	(76)	(21)	**(300)**	(6)	**(306)**
31 December 2015	**1,422**	**887**	**69**	**2,378**	**176**	**2,554**

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

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

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

Liquids reserves include oil, condensate and natural gas liquids.

Five Year Summary (Unaudited)

Year ended 31 December	2011 (restated) (i) £m	2012 (restated) (i) £m	2013 (restated) (i) £m	2014 (restated) (i) £m	**2015 £m**
Group revenue from continuing operations	22,824	23,942	26,571	29,408	**27,971**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
British Gas	1,005	1,093	1,030	823	**809**
Direct Energy	287	310	276	150	**328**
Bord Gáis Energy	–	–	–	7	**30**
Centrica Energy	898	1,118	1,217	648	**255**
Centrica Storage	75	89	63	29	**37**
Adjusted operating profit – operating profit before exceptional items and certain re-measurements	2,265	2,610	2,586	1,657	**1,459**
Share of joint ventures' and associates' interest and taxation	(57)	(48)	(68)	(89)	**(61)**
	2,208	2,562	2,518	1,568	**1,398**
Operating profit from discontinued operations:					
European operations	13	–	–	–	**–**
Exceptional items and certain re-measurements after taxation	(844)	(77)	(383)	(1,932)	**(1,717)**
Profit/(loss) attributable to owners of the parent	385	1,245	950	(1,012)	**(747)**
	Pence	Pence	Pence	Pence	**Pence**
Earnings per ordinary share	7.5	24.0	18.4	(20.2)	**(14.9)**
Adjusted earnings per ordinary share	23.8	25.5	25.9	18.0	**17.2**
Dividend per share declared in respect of the year	15.4	16.4	17.0	13.5	**12.0**

Assets and liabilities

31 December	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Goodwill and other intangible assets	3,739	4,122	4,724	4,600	**3,824**
Other non-current assets	10,234	11,690	10,993	9,974	**7,790**
Net current liabilities	(739)	(446)	(470)	(1,492)	**(521)**
Non-current liabilities	(7,634)	(9,439)	(10,192)	(10,011)	**(9,718)**
Net assets of disposal groups held for sale	–	–	202	–	**(33)**
Net assets	5,600	5,927	5,257	3,071	**1,342**
Debt, net of cash, cash equivalents and securities:					
Net debt	(3,073)	(3,945)	(4,942)	(5,196)	**(4,747)**

Cash flows

Year ended 31 December	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Cash flow from operating activities before exceptional payments	2,531	3,086	3,164	1,342	**2,278**
Payments relating to exceptional charges	(194)	(266)	(224)	(125)	**(81)**
Net cash flow from investing activities	(1,400)	(2,558)	(2,351)	(651)	**(611)**
Cash flow before cash flow from financing activities	937	262	589	566	**1,586**

(i) The 2011-2014 comparatives have been restated following the Board's decision to include the depreciation of fair value uplifts of fixed assets acquired on Strategic Investments in the definition of adjusted operating profit. See note 2 for further information.

Ofgem Consolidated Segmental Statement

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

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Centrica plc and its Licensees (as listed in footnote [i]) as at 31 December 2015 in accordance with the terms of our agreement dated 27 January 2016. The CSS has been prepared by the Directors of Centrica plc and its Licensees (together the 'Directors') based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 188 to 191.

Directors' responsibility

The Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 188 to 191 and for maintaining the underlying accounting records and such internal control as the Directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement. The materiality level that we used in planning and performing our audit is set at £30 million for each of the segments.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the CSS 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 entity's internal control. An audit also includes evaluating the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the attached CSS of Centrica plc and its Licensees for the year ended 31 December 2015 is prepared, in all material respects, in accordance with:

(i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the Regulator Ofgem; and

(ii) the basis of preparation on pages 188 to 191.

Basis of accounting and restriction on distribution

Without modifying our opinion, we draw attention to pages 188 to 191 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 requirements 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 188 to 191. 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 Boards 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 2015 and the Financial Statements section of their website [ii] www.centrica.com/prelims2015, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Centrica plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
London
18 February 2016

(i) British Gas Trading Limited, Centrica Langage Limited, Centrica SHB Limited, Centrica Brigg Limited, Centrica Barry Limited, Centrica KPS Limited, Centrica RPS Limited, Centrica PB Limited and Centrica KL Limited.
(ii) The maintenance and integrity of the Centrica plc 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

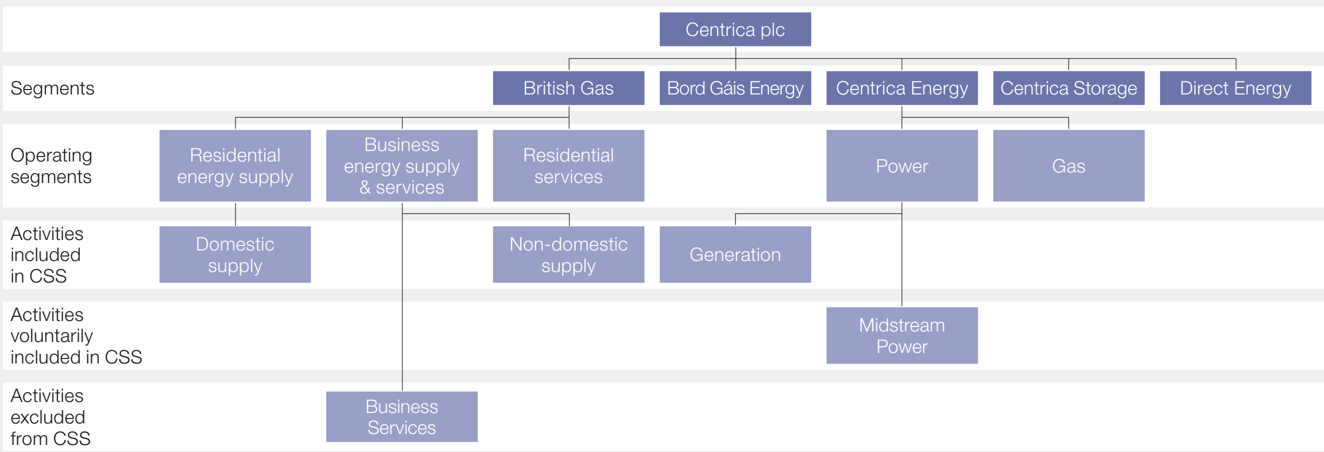
The Ofgem Consolidated Segmental Statement (CSS) and required regulatory information on pages 184 to 193 are provided in order to comply with Standard Condition 16B of Electricity Generation Licences and Standard Condition 19A of the Electricity and Gas Supply Licences.

The CSS and supporting information are 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 Annual Report and Accounts for the year ended 31 December 2015 which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and 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 Annual Report and Accounts 2015 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 (eg Midstream Power and Business Services) as illustrated below. However, to aid transparency, the Midstream Power result has been voluntarily included in the CSS. The Centrica plc Annual Report and Accounts 2015 provides operating segment results for 'British Gas – Residential energy supply', 'British Gas – Business energy supply and services' and 'Centrica Energy – Power' in note 4. A full reconciliation between these 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



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 Annual Report and Accounts 2015 within the operating segments shown above. The individual supply and generation licences held in subsidiaries, joint ventures or associates of Centrica plc during 2015 are detailed below:

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

(i) Brigg and Roosecote's licences were revoked on 2 July 2015 (at their request) because they no longer require an electricity generation licence.
(ii) The Centrica plc 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 2015

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

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

2014 Summarised CSS

Year ended 31 December 2014

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

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

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

Ofgem Consolidated Segmental Statement

OFGEM CONSOLIDATED SEGMENTAL STATEMENT

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 2015 – 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 Midstream Power 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 2015 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 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 2015, included in the Centrica plc Annual Report and Accounts 2015 which has been prepared under IFRS (in accordance with paragraph 3/19A.3).

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 (eg Nuclear, Thermal or Renewables) has undertaken trades to optimise the result of their underlying generation, 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.
- 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 has 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.
- As a voluntary disclosure, to aid transparency, the Midstream Power trading result (including immaterial overseas activities) has been reported in a separate column of the CSS ('Midstream Power'). The Midstream Power result includes trading in physical and financial energy contracts for the purpose of making profits in their own right and other non-licensed activities (see below). This does not form part of either the Generation or Supply segment. This means our CSS discloses all of the activities that have been included in the 'Centrica Energy – Power' segment of the Centrica plc Annual Report and Accounts 2015 (note 4).
- Where power is purchased from third parties (eg 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 (but is included in our 'Midstream Power' disclosure). In all cases, the Generation segment reports direct fuel costs and generation volumes on a consistent basis (ie 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 2014 CSS with margins has been included within the report.

Revenues

Revenues, costs and profits of the Licensees have been defined below and prepared in compliance with the Group's accounting policies as detailed in notes 2, 3 and S2 of the Centrica plc Annual Report and Accounts 2015, 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 period 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.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

- Revenue from sales of electricity for the Generation segment is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of each of the power Generation segments are presented net within revenue.
- LEC revenues associated with Renewables are included within sales of electricity and gas because the certificates must be sold with the electricity.
- Revenue from sales of electricity and gas in Midstream Power relate to the sale of power procured under non-licensed activities' power purchasing agreements (PPAs) and from overseas generation.
- No tolling agreements exist between business segments. The financial risks and rewards of owning and using the Group's power stations reside in the Generation segment.
- Other respective segmental revenues not related to the sale of gas or power have been separately disclosed. Other revenues include:
  - £78.4 million (2014: £91.9 million) in Renewables principally relating to the sale of ROCs and services provided to joint ventures;
  - £3.4 million in Non-Domestic Electricity Supply relating to connections and metering installations (2014: £8.3 million);
  - £67.8 million (2014: £35.6 million) in Domestic Electricity Supply and £75.8 million (2014: £45.1 million) in Domestic Gas Supply primarily relating to New Housing Connections and a variety of new technology investments including smart meter installations; and
  - £32.0 million in Midstream Power predominantly relating to the net result of trading in physical and financial energy contracts (both realised (settled) and unrealised (fair valued)) for the purpose of making profits in their own right, net of broker costs (2014: £45.7 million).

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.
- For the Midstream Power segment, any procurement of gas for overseas generation is reported as part of direct costs and not within direct fuel costs.

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.

(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

- 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 (eg APX or SAP).
- For electricity Supply the weighted average cost of electricity is shown as £/MWh. For gas Supply, the weighted average cost of gas is shown as p/th.

Direct costs

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

- Network costs for Supply and Generation include transportation costs, BSUOS and the transport element of RBD costs. Supply transportation costs include transportation and LNG costs, including £42.2 million incurred by Gas Domestic Supply in 2015, which enables the segment to secure supply by giving the ability to bring gas into the UK from overseas (2014: £46.1 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, ie producing a sale. They also include Elexon and Xoserve market participation and wider Smart metering programme costs.
- Other direct costs for Midstream Power principally relate to the costs of purchasing power under other non-licensed activities' PPAs and from procuring gas for overseas generation.

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).
- Indirect costs for Nuclear (within the Generation segment) include a one off pension credit of £18.7 million (2014: nil).
- Indirect costs for Midstream Power relate to employee, IT and property costs.

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 4(c) of the Centrica plc Annual Report and Accounts 2015 provides details of the adjusted operating profit after tax of the 'British Gas – Residential energy supply' and 'British Gas – Business energy supply and services' 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.

Ofgem Consolidated Segmental Statement

BASIS OF PREPARATION

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.

Treatment of joint ventures and associates

The share of results of joint ventures and associates for the year ended 31 December 2015 principally arises from the Group's interests in the entities listed on page 184.

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 £2.0 million (2014: £6.0 million), EBIT loss of £1.0 million (2014: £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 and impairment charges that have been identified in the Centrica plc Annual Report and Accounts 2015 are excluded from the CSS. For further details of excluded exceptional items and certain re-measurements see note 7 in the Centrica plc Annual Report and Accounts 2015.

The Nuclear sub-segment result includes a £19.6 million (2014: £20.8 million) profit from the revaluation of contingent valuation rights, related to the original acquisition of the Nuclear investment. This result has been included in the Generation segment as it is not exceptional in size, nature or incidence, and does not materially change the Generation result.

There were no impairment losses in the Supply segment during the year (2014: £2.4 million). The Generation segment includes a number of impairment losses totalling £7.3 million. These losses have been included in the Generation results as they are not exceptional in size, nature or incidence, and do not materially change the result.

A reconciliation of the Segmental Statement revenue, EBIT, depreciation and Supply PAT to the 2015 audited Centrica plc Annual Report and Accounts has been included in accordance with paragraph 4(b) & (c)/19A.4 (b) & (c) and 6/19A.6.

(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

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

The reconciliation refers to the segmental analysis of the 2015 Centrica plc Annual Report and Accounts in note 4.

				Supply segment			
			Generation segment	Domestic		Non-Domestic	
		Notes	2015	Electricity 2015	Gas 2015	Electricity 2015	Gas 2015
Revenue (£m)	**Centrica plc Annual Report and Accounts Segmental Analysis (i)**		1,189.6	8,249.0		2,462.6	
	Gas and Electricity allocation	1	–	3,309.4	4,939.6	1,784.7	677.9
	Include share of JVs and associates	2	742.5	–	–	–	–
	Exclude intra-segment revenues	3	(661.9)	–	–	–	–
	Exclude midstream revenues	4	(106.5)	–	–	–	–
	Exclude non-domestic services revenues	5	–	–	–	(102.2)	–
	Ofgem Consolidated Segmental Statement		1,163.7	3,309.4	4,939.6	1,682.5	677.9
EBIT (£m)	**Centrica plc Annual Report and Accounts Segmental Analysis (i)**		102.5	574.4		(21.6)	
	Gas and Electricity allocation	1	–	(5.4)	579.8	(54.4)	32.8
	Exclude midstream EBIT	4	(17.6)	–	–	–	–
	Exclude non-domestic services loss	5	–	–	–	5.6	–
	Ofgem Consolidated Segmental Statement		84.9	(5.4)	579.8	(48.8)	32.8
Depreciation (£m)	**Centrica plc Annual Report and Accounts Segmental Analysis (i)**		(34.5)	(109.5)		(13.5)	
	Gas and Electricity allocation	1	–	(48.1)	(61.4)	(9.3)	(4.2)
	Include share of JVs and associates depreciation	2	(166.6)	–	–	–	–
	Exclude midstream depreciation	4	–	–	–	–	–
	Exclude non-domestic services depreciation	5	–	–	–	0.9	–
	Ofgem Consolidated Segmental Statement		(201.1)	(48.1)	(61.4)	(8.4)	(4.2)
PAT (£m)	**Centrica plc Annual Report and Accounts Segmental Analysis (i)**			461.0		(18.0)	
	Gas and Electricity allocation	1		(4.5)	465.5	(44.1)	26.1
	Exclude non-domestic services loss	5		–	–	5.2	–
	Ofgem Consolidated Segmental Statement			(4.5)	465.5	(38.9)	26.1

(i) The table above reconciles the Generation segment to 'Centrica Energy – Power', the Domestic Supply segment to 'British Gas – Residential energy supply' and the Non-Domestic Supply segment to 'British Gas – Business energy supply and services' in note 4 to the 2015 Centrica plc Annual Report and Accounts. Also included in note 4 is a reconciliation to the IFRS compliant statutory result reported by the Centrica plc Group.

Ofgem Consolidated Segmental Statement

RECONCILIATION TO CENTRICA PLC ANNUAL REPORT AND ACCOUNTS

Notes:

1. 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 4 of the Centrica plc Annual Report and Accounts 2015, has been split between Gas and Electricity.
2. £742.5 million of revenues relating to the Group's share of joint ventures and associates in Generation are included in the CSS – £643.9 million relating to Nuclear revenues and £98.6 million relating to Wind revenues. £261.8 million of EBIT in the Generation segment relates to profit from joint ventures (£227.8 million profit relating to Nuclear and £34.0 million profit relating to Wind). Additionally, costs relating to the Group's share of joint ventures and associates – £83.9 million direct fuel costs, £237.2 million direct costs, £(7.0) million indirect costs and £166.6 million depreciation and amortisation are included. The results of joint ventures and associates are shown separately in the Centrica plc Annual Report and Accounts 2015 in notes 6 and 14.
3. £661.9 million of intra-segment revenues between the joint ventures and associates and the Generation segment (included in the £742.5 million of joint venture and associate revenues) are excluded from the CSS.
4. £106.5 million of revenues, £17.6 million of operating profit and no depreciation relating to Centrica's Midstream Power non-licensed activities ('Midstream Power') are excluded from the Generation segment of the CSS (but have been voluntarily disclosed as 'Midstream Power').
5. £102.2 million of revenues, £5.6 million of operating loss, £0.9 million of depreciation and £5.2 million of operating loss after tax relate to Non-Domestic services and are excluded from the CSS.

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 our 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 also 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 Corporate Nominees 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 the Shareholder Centre together with dealing charges;
- no replacement share certificate charges if your share certificate is lost or destroyed; and
- quicker settlement periods for buying and selling shares.

Centrica.com

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

- register for electronic communications;
- transfer your shares;
- change your registered name or address;
- register a lost share certificate and obtain a replacement;
- consolidate your share certificates;
- manage your dividend payments;
- buy, sell or transfer shares through Centrica FlexiShare; and
- notify the death of a shareholder.

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;
- the Company's Articles of Association; and
- share and dividend history.

This Annual Report and Accounts can also be viewed online by visiting centrica.com/ar15.

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 at the following:

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 8.30am to 5.30pm, 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 tax voucher 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 your shareholder reference numbers. This also helps us to reduce our environmental impact and save paper.

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the dividends for the year ended 31 December 2015 can be found in note 11 to the Financial Statements on page 111.

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 dividend cheques being delayed or lost in the post. If you do choose to receive your dividends in this way, a consolidated tax voucher will be sent to you each year.

If you do not have a UK bank or building society account, Equiniti is able to pay dividends in local currencies in over 90 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

Unclaimed dividends

We have worked with a specialist tracing agency, ProSearch, over a number of years to identify shareholders whose details are not up to date and who have outstanding cash entitlements. During 2015, we extended the tracing programme to identify shareholders and former shareholders who did not take up the rights issue undertaken by the Company in December 2008. The rights issue was on the basis of three new Ordinary shares for every eight existing Ordinary shares held by shareholders at the close of business on 14 November 2008. Those shareholders whose rights lapsed as they did not take up the option would have received a cash payment equivalent to the number of shares offered as part of the rights issue. ProSearch will try to contact shareholders who have not received their cash entitlement.

To ensure you continue to receive all our communications and mailings, please notify Equiniti when your address details change.

American Depositary Receipts (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available from our website or please contact:

ADR Depositary
Address: BNY Mellon Shareowner Services
PO Box 30170, College Station, TX 77842-3170, USA.

Email: shrrelations@cpushareownerservices.com

Website: mybnymdr.com

Telephone: +1 888 269 2377 (toll-free in the US)
Outside the US: +1 201 680 6825

Annual General Meeting 2016

The 2016 AGM will be held on 18 April 2016 at 11.00 am at Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. A separate notice convening the meeting is distributed to shareholders, which includes an explanation of the items of business to be considered at the meeting.

Share dealing services

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this by using the services of a stockbroker or high street bank, or through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale. Alternatively, if you hold your shares through FlexiShare, you can buy and sell Centrica shares through the Shareview portal at shareview.co.uk.

2016 calendar

Apr 2016
- **18 April 2016** – Trading Update. AGM, Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE

May 2016
- **12 May 2016** – Ex-dividend date for 2015 final dividend
- **13 May 2016** – Record date for 2015 final dividend
- **18 May 2016** – Scrip reference share price set

Jun 2016
- **2 June 2016 4.30pm** – Deadline for the receipt of election forms from shareholders
- **20 June 2016** – Share certificates/FlexiShare statements posted
- **23 June 2016** – Payment date for 2015 final dividend

Jul 2016
- **28 July 2016** – Half-year results announcement

Aug 2016

Sep 2016

Oct 2016
- **13 October 2016** – Ex-dividend date for 2016 interim dividend
- **14 October 2016** – Record date for 2016 interim dividend

Nov 2016
- **24 November 2016** – Payment date for 2016 interim dividend

Dec 2016
- **15 December 2016** – Trading Update

Shareholder Information continued

ShareGift
If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at sharegift.org or by calling +44 (0)20 7930 3737.

Capital gains tax (CGT)
The information provided below is primarily for the purpose of individual shareholders resident in the UK calculating their personal tax liability. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

Shareholders who held British Gas plc shares at demerger would have received one Centrica share and one BG plc (now BG Group plc) share for each British Gas plc share held. The base cost distribution of British Gas plc shares were allocated between Centrica plc and BG plc, 27.053% and 72.947% respectively.

Due to the range of individual circumstances, shareholders are advised to contact HM Revenue & Customs or seek independent advice when calculating their CGT liability. Further information about CGT can be found at hmrc.gov.uk/cgt/shares/index.htm or on our website.

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/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form or by calling them on 0800 111 6768*.

If you do receive telephone calls, emails, 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.

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

Dematerialisation
European Union regulation stipulates that full market dematerialisation of transferable securities (including shares) must be implemented across the European Union by 2023. This essentially means that once the regulation comes into effect it will no longer be possible for shareholders of traded companies to hold their shares in certificated form.

The Department for Business, Innovation and Skills (BIS) will hold a consultation on dematerialisation during 2016. The consultation will explore ways of implementing dematerialisation in the UK. Existing issued shares, such as Centrica shares, will need to be in dematerialised form from 1 January 2025.

RANGE ANALYSIS OF REGISTER

Breakdown of shareholdings overall

Range	Number of holdings	Percentage of issued share capital*
1 – 500	441,900	2.0%
501 – 1,000	93,513	1.3%
1,001 – 5,000	63,670	2.3%
Over 5,001	7,346	94.4%
Total*	606,429	100%

* excludes shares held in Treasury.

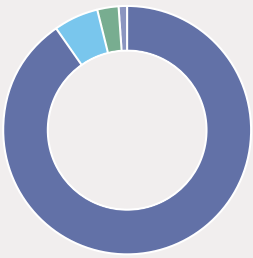
RANGE ANALYSIS OF REGISTER

Breakdown of shareholdings with over 5,001 shares

Range	Number of holdings	Percentage of issued share capital*
5,001 – 10,000	4,476	0.6%
10,001 – 50,000	1,827	0.7%
50,001 – 100,000	188	0.3%
100,001 – 1,000,000	495	3.5%
1,000,001 – maximum	360	89.3%
Total*	7,346	

* excludes shares held in Treasury.

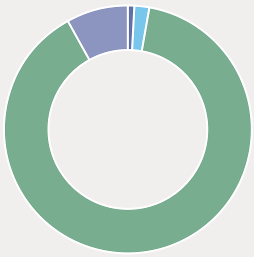
Share distribution



	Number of shares
Institutions	4,635,446,843
Individuals	303,647,145
Centrica FlexiShare	130,746,942
Treasury	58,705,016

When including Centrica FlexiShare holders, individual shareholders equate to 98% of the Company's registered shareholders with institutions making up the remaining 2%. The 98% of individual shareholders hold 8.6% of the Company's issued share capital with institutional investors holding 91.4%. These figures exclude shares held in Treasury which represent 1.2% of the Company's issued share capital.

Shareholder communication preferences as at 31 December 2015

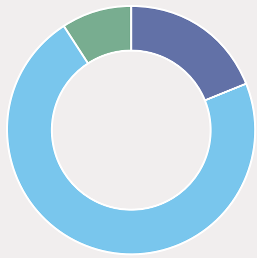


	Number of holdings
Hardcopy Annual Report	5,576
Hardcopy Annual Review	15,916
Notice of Availability	600,407
Electronic communication	54,369

The Company spends over £200,000 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 2015 interim dividend



	Number of shares
Scrip dividend reinvestment	959,641,113
Bank mandate	3,647,174,960
Cheque	446,591,274

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 dividend cheques being delayed or lost in the post.

TELL SID

2016 is the 30th anniversary of the privatisation of British Gas Corporation in 1986. The famous 'Tell Sid' advertising campaign prompted hundreds of thousands of people to buy shares in British Gas plc. Anyone who kept their British Gas plc shares now owns stakes in BG Group plc and National Grid plc as well as Centrica plc. Our 'Sid' shareholders continue to make up an important part of our shareholder base accounting for 22.5% of our shareholders.

Glossary

$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
AFS	Available-for-sale
AGM	Annual General Meeting
AGR	Advanced gas-cooled reactor
AIP	Annual Incentive Plan
AOCF	Adjusted operating cash flow
Articles	The Articles of Association
Associate	An entity in which the Group has an equity interest and over which it has the ability to exercise significant influence
bbl	Barrels of oil
bcf	Billion cubic feet
BSUOS	Balancing services use of system
C&I	Commercial and industrial
CCGT	Combined cycle gas turbine
CGU	Cash generating unit
CMA	Competition and Markets Authority
CO_2	Carbon dioxide
CO_2e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO_2e (carbon dioxide equivalent)
CPI	Consumer Price Index
CRM	Customer relationship management
CSS	Consolidated Segmental Statement
CUPS	Centrica Unfunded Pension Scheme
DE&P	Distributed Energy and Power
DECC	Department of Energy and Climate Change
DMSS	Deferred and Matching Share Scheme
E&P	Exploration and production
EBITDA (adjusted)	Earnings from business performance before share of results of joint ventures and associates and before interest, tax, depreciation, impairments and amortisation
EBT	Employee Benefit Trust
ECO	The Energy Company Obligation is a UK government programme that requires energy suppliers to insulate and install energy efficiency measures to reduce heating costs across the UK
EM&T	Energy Marketing and Trading
Employee engagement	Employee engagement is an emotional state driven by employees' perception of what it is like to work for an organisation. What they think and feel will drive how they behave and this in turn has a measurable impact on business performance
EP	Economic profit is adjusted operating profit (after share of joint venture interest) less a tax charge based on the tax rate relevant to the business segments and after deduction of a capital charge
EPS (adjusted)	Earnings per share. This measure of performance is calculated as profit or loss before other costs and exceptional items and certain re-measurements for the year, attributable to equity shareholders of the ultimate parent company, divided by the weighted average number of shares in issue during the year
EUA	European Union allowance (carbon emissions certificate)
EU ETS	European Union Emission Trading Scheme

FCA	Financial Conduct Authority
FOB	Free on board, grants a supplier the global rights to deliver to wherever it can gain the best price for a cargo
FTSE 100	Financial Times Stock Exchange 100 share index, an average of share prices in the 100 most actively traded companies on the London Stock Exchange, with the highest market capitalisation
FVLCD	Fair value less costs of disposal
gCO_2/kWh	Grammes of carbon dioxide per kilowatt hour
GFRMC	Group Financial Risk Management Committee
HSES	Health, safety, environment & security
HVAC	Heating, ventilation and air conditioning
IAS	International Accounting Standards
IAS 19	The International Accounting Standard related to Employee Benefits. These financial reporting rules include requirements related to pension accounting
IAS 39	The International Accounting Standard related to financial instruments (recognition & measurement)
IFRS	International Financial Reporting Standard
IPIECA	International Petroleum Industry Environmental Conservation Association
Jointly controlled entity	A joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers
KPI	Key performance indicators
kW	Kilowatt
kWh	Kilowatt hour
Level 1 fair value	Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities
Level 2 fair value	Fair value is determined using significant inputs that may be either directly observable inputs or unobservable inputs that are corroborated by market data
Level 3 fair value	Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate. A work related injury or illness that results in one or more days away from work, excluding the day that the injury or illness occurred
LTIP	Long Term Incentive Plan
LTIS	Long Term Incentive Scheme
mmboe	Million barrels of oil equivalent
mmth	Million therms
MPAN	Meter point administration number
MPRN	Meter point reference number
$mtCO_2e$	Million tonnes of carbon dioxide equivalent
MW	Megawatt
MWh	Megawatt hour
MWp	Megawatt peak
NBP	National Balancing Point
NBV	Net book value
NGO	Non-governmental organisation
nm	Not measured

Glossary continued

NPS	Net promoter score. NPS measures customer advocacy by responses to the question 'How likely would you be to recommend us (0–10 scale)?' The score is calculated by the percentage of customers defined as promoters (scoring 9–10) minus the percentage defined as detractors (0–6)
OTC	Over the counter
PAC	Political Action Committee
PIE	Pensions increase exchange
PPA	Power purchase agreement
PP&E	Property, plant and equipment
ppt	Percentage point
PRA	Prudential Regulation Authority
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRT	Petroleum Revenue Tax
PwC	PricewaterhouseCoopers – the external auditors
QPI	Qatar Petroleum International
RBD	Reconciliation by difference
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
SBU	Standard bundled unit
Scope 1 emissions	The greenhouse gas (GHG) emissions associated with combustion of fossil fuels in the power stations, gas and oil assets, offices, vehicles, equipment and machinery owned/controlled by the reporting entity, as well as the leakage or escape of GHG emissions
Scope 2 emissions	The greenhouse gas (GHG) emissions associated with the electricity, heat and steam we import for use in our power stations, gas and oil assets, offices, vehicles, equipment and machinery
Securities	Comprised of treasury gilts designated at fair value through profit or loss on initial recognition and available-for-sale financial assets. The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using observable market data
SHESEC	The Safety, Health, Environment, Security and Ethics Committee
SIP	Share Incentive Plan
Spark spread	The difference between the price of a unit of electricity and the cost of the gas used to generate it
tCO_2e	Tonnes of carbon dioxide equivalent
The Code	The UK Corporate Governance Code set of principles and provisions issued by the Financial Reporting Council
TRIFR	Total recordable injury frequency rate. Recordable injuries include all work-related injuries including fatalities, lost time incidents, restricted duty and medical treatment (excluding first aid only injuries)
TSR	Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100
TWh	Terawatt hour
VAT	Value added tax
VIU	Value in use
Vulnerable customer	A customer is vulnerable if due to their personal circumstances, they may be unable to safeguard their personal welfare or that of other household members
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C016486

This report is printed on recycled silk papers made from 100% pre and post-consumer waste. The paper mills are based in the European Union and manufacture papers independently audited and certified by the Forest Stewardship Council® (FSC®) and accredited to the Environmental Management System 14001.

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

Designed and produced by
CONRAN DESIGN GROUP

Disclaimer

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

This Annual Report and Accounts 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

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Company registered
in England and Wales
No. 3033654

centrica.com