

Preliminary results for the year ended 31 December 2017

IAIN CONN, GROUP CHIEF EXECUTIVE

"Our financial result in the second half of 2017 was weak, primarily reflecting poor performance in Business energy supply and particularly in our North America Business unit. The combination of political and regulatory intervention in the UK energy market, concerns over the loss of energy customers in the UK, and the performance issue in North America have created material uncertainty around Centrica and, although we delivered on our financial targets for the year, this resulted in a very poor shareholder experience. We regret this deeply, and I am determined to restore shareholder value and confidence. The underlying trends driving our strategy are clear, as are the distinctive capabilities we have to benefit from them. We are committed to delivering attractive returns and growth over the medium term. Our focus today is on performance delivery and financial discipline - on demonstrating top line growth as we deliver improved service and new propositions for our customers, and driving efficiency as hard as possible to underpin our competitiveness".

HEADLINES

2017 financial performance

- Adjusted operating profit down 17% to £1,252m, reflecting significantly reduced profit in Centrica Business.
- Adjusted earnings down 22% to £698m. Higher net finance cost and lower Group adjusted tax rate of 22%.
- Adjusted EPS down 25% to 12.6p.
- £476m post-tax net exceptional charge, predominantly relating to impairments of E&P assets and Rough; shareholder statutory profit of £333m after accounting for re-measurements of open commodity positions.
- EBITDA down 9%. Adjusted operating cash flow (AOCF) down 23% reflecting lower EBITDA and one-off UK Business working capital inflow in 2016. Underlying AOCF down 13.0% vs 2016 and CAGR of (0.7%) since 2015.
- Group net debt down £877m to £2.6bn, at lower end of £2.5bn-£3bn end 2017 targeted range.
- Proposed full year dividend of 12.0p.

First phase of strategic repositioning of Centrica complete

- Shift of resources to customer-facing businesses in line with strategy. Encouraging progress as we focus on the customer and reinforce the core of energy supply and services, with significant growth rates in new areas.
- Asset portfolio materially repositioned with over £900m of E&P and Central Power Generation disposals since 2016 and establishment of stronger and more sustainable Spirit Energy E&P business.
- £750m cost efficiency programme delivered three years early; total like-for-like controllable costs down 10% from £5.0bn to £4.5bn over the 2015-2017 period.

2018-2020 focus on performance delivery and financial discipline

- Group cost efficiency programme target increased by £500m to £1.25bn per annum by 2020.
- Aiming to demonstrate customer-led gross margin growth through new propositions which reinforce and strengthen the core of traditional energy supply and in-home servicing relationships.
- Targeting AOCF of £2.1bn-£2.3bn p.a. on average and capital reinvestment of no more than £1.2bn p.a.
- Expect to maintain current level of dividend per share subject to generating AOCF within target range and net debt remaining within a £2.25bn-£3.25bn range.
- Intend to pursue sale of UK nuclear investment. No plans for any major growth M&A.

GROUP FINANCIAL SUMMARY

Year ended 31 December	2017	2016	Change
Revenue	£28.0bn	£27.1bn	3%
EBITDA	£2,142m	£2,365m	(9%)
Adjusted operating profit	£1,252m	£1,515m	(17%)
Adjusted earnings	£698m	£895m	(22%)
Adjusted basic earnings per share (EPS)	12.6p	16.8p	(25%)
Full year dividend per share	12.0p	12.0p	0%
Adjusted operating cash flow	£2,069m	£2,686m	(23%)
Underlying adjusted operating cash flow growth	(13.0%)	13.3%	nm
Group net debt	£2,596m	£3,473m	(25%)
Statutory operating profit	£486m	£2,486m	(80%)
Statutory profit for the period attributable to shareholders	£333m	£1,672m	(80%)
Statutory net cash flow from operating activities	£1,840m	£2,396m	(23%)
Net exceptional items after taxation included in statutory profit	(£476m)	£27m	nm
Basic earnings per share	6.0p	31.4p	(81%)

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 25 to 28. See also notes 2, 5 and 10 to the Financial Statements and pages 76 to 78 for an explanation of the use of adjusted performance measures.

Group Metrics

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) ¹	0.98	0.98	0%
Brand Net Promoter Score (NPS) ²			
Consumer			
UK Home	1	3	(2pt)
North America Home	33	32	1pt
Business			
UK Business	(11)	(8)	(3pt)
North America Business	33	31	2pt
Customer account holdings (period end)			
Consumer			
Energy supply and services ('000s) ³	24,416	26,141	(7%)
Connected Home cumulative hubs installed ('000s)	900	527	71%
Business			
Energy supply ('000s)	1,268	1,348	(6%)
DE&P active customer sites	4,778	3,924	22%
Total customer energy consumption			
Gas (mmth)	11,630	12,022	(3%)
Electricity (GWh)	133,869	144,810	(8%)
Energy use per Home energy customer (kWh)			
UK	8,367	8,764	(5%)
North America	24,487	23,056	6%
Annualised cost per Home customer (£) ⁴			
UK	90	98	(8%)
North America	185	189	(2%)
Growth revenue (Connected Home, DE&P) (£m) ⁵	213	194	10%
E&P total production volumes (mmboe)	61.0	71.2	(14%)
Adjusted operating costs (£m) ⁶	2,472	2,610	(5%)
Adjusted operating costs as a % of adjusted gross margin	61%	58%	3ppt
Direct Group headcount (period end) ⁷	33,138	36,494	(9%)
Adjusted operating cash flow (£m)	2,069	2,686	(23%)
Underlying adjusted operating cash flow growth ⁸	(13.0%)	13.3%	nm
Group net investment (£m) ⁸			
Capital expenditure (including small acquisitions)	943	842	12%
Cash acquired through Spirit Energy transaction	(78)	-	nm
Material acquisitions (>£100m)	-	322	(100%)
Net disposals	(819)	(125)	(555%)
Group net investment (£m)	46	1,039	(96%)
ROACE (post-tax) ⁸	14%	16%	(2ppt)
Adjusted gross margin (£m)			
Centrica Consumer	2,781	2,913	(5%)
Centrica Business	904	1,100	(18%)
E&P and CSL	357	378	(6%)
Total adjusted gross margin (£m)	4,042	4,391	(8%)
Adjusted operating profit (£m)	1,252	1,515	(17%)
Adjusted earnings (£m)	698	895	(22%)
Adjusted earnings per share (pence)	12.6p	16.8p	(25%)

1. Group and business unit total recordable injury frequency rate (per 200,000 hours worked) is on a 12 month rolling basis.

2. 2017 North America Home Brand NPS includes newly implemented Services Brand NPS measure. UK Business Brand NPS is for small and medium enterprise (SME) customers on a 6 month rolling basis, 2016 UK Business Brand NPS has been restated to exclude Industrial & Commercial (I&C) customers and is on a 3 month rolling basis.

3. 2016 services account holdings have been reduced by 55,000 following data assurance activity of our analytical system.

4. Annualised cost per Home customer is adjusted operating costs and controllable cost of sales (costs which management deem can be directly influenced and excluding items such as commodity costs and transmission and distribution costs) per the total of holdings, installs and on demand jobs. 2016 North America annualised cost per Home account restated for foreign exchange movements.

5. Growth revenue is gross revenue for both Connected Home and Distributed Energy & Power.

6. Adjusted operating costs exclude depreciation and amortisation, smart metering and solar expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, the impact of portfolio changes and foreign exchange movements. Total like-for-like controllable costs as referenced in the Group Overview and Business Review sections is adjusted operating costs, excluding growth investment in Connected Home and Distributed Energy & Power, and controllable cost of sales, excluding the impact of portfolio changes, foreign exchange movements and growth investment in Connected Home and Distributed Energy & Power. 2016 restated to reflect foreign exchange movements and portfolio changes.

7. Direct Group headcount excludes contractors, agency and outsourced staff.

8. See pages 76 to 78 for an explanation of the use of adjusted performance measures.

ENQUIRIES

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Group Overview

OVERVIEW

Centrica's financial performance in 2017 was weak, primarily reflecting poor performance in our Centrica Business energy supply business units in the UK and North America in H2. The Group also faced increased political and regulatory uncertainty affecting its UK residential energy supply business in the face of a potential temporary default tariff cap, and warmer than normal weather. In Centrica Consumer, a strong focus on customer value and channel rationalisation, combined with highly competitive market conditions, resulted in a reduction in energy supply accounts. This was partly offset by growth in customers in Connected Home. Energy supply accounts were also down in Centrica Business energy supply.

This performance was reflected in a reduction in the Group's gross margin, which was only partially offset by continued strong cost efficiency delivery. This resulted in a 17% reduction in adjusted operating profit compared to 2016. EBITDA was down 9% year-on-year and adjusted operating cash flow was down 23%. Adjusted earnings were down 22% to £698m, resulting in adjusted EPS of 12.6p per share.

In terms of safety performance, the total recordable injury frequency rate was unchanged compared to 2016, as improvements elsewhere were offset by poor performance in the smart meter installation programme in the UK. The customer injury rate improved markedly. There were also significant improvements in vehicle accident rates and in process safety.

The Group continues to make good progress against the strategic objectives it set out in July 2015, and the first phase of the strategic repositioning to refocus Centrica back towards the core of customer-facing energy and services is complete. We have exited non-core positions in E&P and Central Power Generation, and reallocated resources to enhance our capabilities in our customer-facing businesses. Our £750m per annum cost efficiency programme has been delivered three years early, and today we have increased our efficiency programme target by £500m to £1.25bn per annum by 2020. The Group's balance sheet has been strengthened significantly, with net debt of £2.6bn at the end of 2017, towards the lower end of our end-2017 £2.5bn-£3bn targeted range.

The next phase over 2018-2020 will focus on performance delivery and financial discipline, as we look to demonstrate customer-led gross margin growth and drive further cost efficiency. We will also maintain capital discipline and a strong balance sheet given the uncertainties the Group faces, particularly in the UK. We must also focus attention on making the organisation more effective and on securing the capabilities we will need in 2020 and beyond. The needs of our customers in energy and services are changing, and we must ensure we have the modern capabilities and propositions to meet them. There will of course be a continued focus on safety, compliance, conduct and customer service excellence. Given the current uncertainties, and therefore our desire to maintain a strong balance sheet, we will not be pursuing major acquisitions and any capability building bolt-on acquisitions will fall within the overall limits of capital expenditure within the financial framework.

We have provided updated financial guidance for the 2018-20 period, including targeting adjusted operating cash flow of £2.1bn-£2.3bn per annum on average and capital reinvestment limited to no more than £1.2bn per annum. We expect to maintain the current level of the dividend, subject to generating adjusted operating cash flow within the targeted range and net debt remaining within a £2.25bn-£3.25bn range.

Although 2017 was a challenging year for Centrica and its shareholders, our customer-led strategy and the capabilities and technologies we have built in support of this provide a platform from which we believe we can deliver long-term shareholder value through returns and growth. We are committed to restoring shareholder value and confidence.

2017 FINANCIAL PERFORMANCE

The 2017 financial result was weak, with adjusted operating profit down 17% to £1,252m, largely reflecting poor performance from Centrica Business in H2.

Centrica Consumer adjusted operating profit of £890m was down 1% year-on-year. Connected Home reported an increased adjusted operating loss, reflecting additional revenue investment for growth. However, this was mostly offset by increased adjusted operating profit from our energy supply and services businesses in the UK, Ireland and North America, with the impacts on gross margin of warmer weather, the UK prepayment cap and competitive pressures on accounts more than offset by cost efficiencies.

In UK Home, despite the impacts of warmer weather, customer losses and the UK prepayment cap, adjusted operating profit was up 1% year-on-year and we saw services customer account holdings grow by 77,000 over the

Group Overview continued

second half of 2017, the first time we have seen net growth in any half year since 2011. North America Home saw a 28% increase in adjusted operating profit and Ireland was up 2%.

In Connected Home, the total number of cumulative installed hubs grew by 71% and revenue was up 27%, with 2017 expected to be the peak year of net cash outflow.

Centrica Business adjusted operating profit was down by 67% to £161m. Highly competitive market conditions impacted unit margins and warmer weather impacted consumption in our energy supply business units in the UK and North America, while UK Business was also impacted by high electricity cost volatility in Q1. In North America, our standard power offering suffered from changes to the market structure and related input costs including higher unit capacity charges and an under recovery of unitised non-commodity costs as a result of lower consumption. This further depressed our realised margins in 2017. In addition, low gas price volatility in North America resulting from the warmer weather reduced opportunities for gas optimisation and we also recognised a one-off non-cash post-tax charge of £46m (£76m pre-tax) relating to a reassessment of the historic recognition of unbilled power revenues in one of our billing systems going back to 2013.

Energy Marketing & Trading (EM&T) adjusted operating profit was also down, primarily reflecting lower profit arising from the optimisation of three remaining legacy flexible gas contracts. These were inherited by Centrica on demerger and are part of an overall profitable Centrica portfolio. The two contracts which have been most profitable end in 2018, and the remaining one, which ends in 2025, would be loss-making measured against the current level of gas prices. We will continue to look to maximise the optionality of this contract over its remaining duration to capture favourable market conditions as and when they arise to reduce these losses. Our core route-to-market, trading and LNG activities performed well and adjusted operating profit from these activities increased overall year-on-year.

Distributed Energy & Power (DE&P) delivered a 22% increase in active customer sites and a 24% increase in order book revenue, but reported an increased adjusted operating loss, reflecting additional investment for growth. Central Power Generation adjusted operating profit also fell, predominantly reflecting lower achieved power prices and volumes in nuclear and the disposal of the Lincs windfarm in February 2017.

Adjusted operating profit from the asset businesses, E&P and Centrica Storage (CSL), increased by 49% to £201m. This largely reflects increased gas production from CSL's Rough asset following the decision to apply to end its status as a storage facility and to produce gas to reduce pressure on the wells. In E&P, lower production volumes resulting from an extended outage at Morecambe to improve safety, operational efficiency and underpin the residual life of the asset were broadly offset by the impact of higher achieved liquid and gas prices.

Group adjusted earnings of £698m were 22% lower than in 2016, including the impact of lower capitalised interest and a reduction in the Group adjusted effective tax rate from 25% to 22%, which includes the resolution of past tax provisions and a one-off benefit from US tax reforms. Adjusted basic EPS was 12.6p. The proposed 2017 final dividend of 8.4p will take the full year dividend to 12.0p, in line with 2016.

A net post-tax exceptional charge of £476m was recognised in 2017, including an impairment of CSL's Rough asset relating to the decision to permanently cease storage operations, impairments on certain E&P assets reflecting revised price and decommissioning assumptions, profits and losses on disposals relating to the sale of E&P and Central Power Generation assets, and restructuring and business change charges. Total statutory profit attributable to shareholders of £333m was down 80%, reflecting lower adjusted earnings, higher net exceptional charges and reduced profit from the re-measurement of open commodity positions.

EBITDA was down by £223m, or 9%, to £2,142m largely reflecting the reduced operating profit, while adjusted operating cash flow reduced by £617m, or 23%, to £2,069m, which includes the impact of £357m of one-off working capital inflow in 2016 in UK Business. Statutory net cash flow from operating activities also reduced by 23%. After excluding the UK Business working capital impact, and adjusting for commodity and foreign exchange movements, underlying adjusted operating cash flow fell by 13.0%. Relative to 2015, the cumulative decline is 0.7%.

The Group generated adjusted net cash inflow of £939m in 2017. This includes £819m of net disposal proceeds, however organic sources and uses of cash flow were more than balanced in a year which saw warmer than normal weather and adverse performance in Business energy supply. Reflecting this, Group net debt reduced to just under £2.6bn at the end of 2017, towards the lower end of the Group's targeted end-2017 range of £2.5-£3.0bn. As we stated at the start of 2017, we believe this was the appropriate level consistent with our financial framework parameters, given our existing portfolio of businesses and the prevailing environment for commodity prices, interest rates and inflation. Reflecting the decrease in net debt, we are today announcing offers to repurchase £0.6bn-£1bn of outstanding gross debt to achieve a more efficient balance sheet structure. Including the repayment of £0.4bn of debt

Group Overview continued

due to mature in 2018, this is expected to result in a gross debt reduction of £1.0bn-£1.5bn over 2018 and generate a one-off exceptional interest charge of £80m-£140m in 2018. The subsequent ongoing interest saving on the debt repurchase is expected to be in the range of £25m-£35m per annum over the first four years, with total lifetime savings expected to be between £250m-£400m.

FIRST PHASE OF STRATEGIC REPOSITIONING COMPLETE

Centrica's purpose is to provide energy and services to satisfy the changing needs of our customers. In 2015, we embarked on refocusing Centrica back towards its core – energy supply and services – and announced a revised strategy which would allow Centrica to capitalise on three fundamental trends; decentralisation of the energy system, increased choice and power shifting to the customer, and digital and technological advancements. As part of this customer-led strategy, we announced that we would commit about £1.5bn of additional operating and capital resources by 2020 to drive growth in our focus areas of energy supply, services, distributed energy and power, connected home and energy marketing and trading. At the same time, we would reduce and limit our scale of operations in E&P and Central Power Generation, reducing cumulative resource allocation to these areas over the five years to 2020 by about £1.5bn, and generating £0.5bn-£1bn of proceeds from disposals of non-core assets.

The Group also set out a cost efficiency programme to deliver £750m per annum of savings by 2020, including a direct headcount reduction of 6,000 roles. In addition, a clear financial framework was established, including targeting 3-5% growth in adjusted operating cash flow growth on average per annum, a progressive dividend policy linked to this cash flow growth, controllable costs increasing by less than inflation each year, capital expenditure limited to £1bn in the near-term, strong investment grade credit ratings, and a return on average capital employed of 10-12%.

Enhanced capabilities, technology and propositions in customer-facing businesses

Our focus in the customer-facing businesses has been on improving customer service and reducing costs, while at the same time investing in customer segmentation, propositions, technology and capability. The core of energy and services is evolving and as customer needs evolve, many are demanding enhanced services propositions beyond commodity energy supply. We have made good progress over the past three years, with lower complaints and cost per customer in all our energy supply businesses, while we have also developed a wider range of propositions targeted at the more valuable customer segments. Since the start of 2016 we have spent over £700m incrementally to improve capabilities in our growth areas, including the customer-facing acquisitions of ENER-G Cogen, Neas Energy and REstore and additional capital and revenue investment. These investments provide us with a platform from which to offer additional propositions which enhance customer choice and broaden the relationship, and are targeted at delivering growth in gross margin and adjusted operating cash flow over the coming years. In 2017 we also made our first early stage investments through Centrica Innovations, which helps identify, incubate and accelerate new technologies and innovations that will help provide the right offers, products and services for our customers.

In March, we established global Consumer and Business divisions, recognising that the changing needs of our customers are very similar in all our markets. These new divisions enable a more coherent approach to the end-customer and ensure that capability is developed globally and efficiently in support of our customer-facing strategy, and also allow our business units to share best practice and capture synergies across geographies.

Reduced scale in E&P and Central Power Generation

In E&P, capital expenditure in 2017 was £439m, within the targeted £400m-£600m range and around £300m lower than in 2015. We also completed the disposals of our non-core E&P assets in Trinidad and Tobago and Canada. In power generation, with our focus for growth on flexible peaking units, energy storage and distributed generation, we completed our exit from wind generation ownership with the sale of our Lincs windfarm interest and sold our large gas-fired power stations at Langage and Humber. Including the 2016 disposal of the GLID wind farm joint venture, disposal proceeds from E&P and Central Power Generation have totalled £944m across 2016 and 2017, towards the upper end of our £0.5bn-£1bn range.

In July, we announced we had reached an agreement to combine our remaining European E&P activities with Bayerngas Norge, to form a newly incorporated business, Spirit Energy. The transaction completed in December and Centrica owns 69% of the new entity. The combination creates a strong and sustainable, self-financing European E&P business, combining Centrica's cash-generative and relatively near-term production profile with Bayerngas Norge's more recently on-stream producing assets and development portfolio. It is expected to deliver medium-term production in the 45-55mmboe range, with Centrica's net share in the 30-40mmboe range, lower than our previously announced 40-50mmboe targeted annual range. However, total production from the business will be of sufficient scale to create a sustainable E&P business and we believe our lower share of production will still be adequate to allow

Group Overview continued

E&P to fulfil its role in Centrica's portfolio of providing cash flow diversity and contributing to balance sheet strength. A total of £100m-£150m net present value of synergies are expected to be realised from the transaction and the formation of the business also provides the opportunity for it to participate in further consolidation in North West Europe, should further value enhancing opportunities arise.

In January 2018, CSL received consent from the Oil and Gas Authority to produce all recoverable gas reserves from the Rough asset which, following the CMA's final decision in December to remove CSL from the Undertakings, finalises the change in Rough's status from a storage facility to a producing asset.

Delivery of £750m cost efficiency programme

In 2017 we delivered a further £308m of efficiencies from our multi-year programme, in addition to the £384m delivered in 2016. When including the end-2017 run rate, which will deliver £54m of additional annualised savings in 2018, we will have delivered the £750m cost efficiency target three years ahead of plan. This is before including £103m of savings delivered in H2 2015. Direct like-for-like headcount reduced by around 2,100 in 2017, taking the total reduction to around 5,500 since the start of 2016.

When including the impact of inflation and other cost reductions which are one-off in nature or volume related, like-for-like controllable costs are 3% lower than in 2016 and 10% lower than in 2015. Reported operating costs before exceptional items were 7% lower than in 2016 and 6% lower than in 2015, with the Group more than absorbing the effects of inflation, significant foreign exchange movements and additional revenue investment in our growth businesses.

The efficiency savings and headcount reductions in 2017 have come from a combination of the annualisation of 2016 savings, and from 2017 initiatives including a continued focus on transforming our customer operations, the utilisation of our enhanced digital and technology capabilities and further integration of our field operations model. In our asset businesses, we have delivered efficiencies from both productivity and supply chain initiatives, while our global support functions have generated efficiencies from embedding shared service operations.

Financial framework

We are delivering against many aspects of our financial framework, although we have yet to demonstrate consistent growth in adjusted operating cash flow and, as a result, the dividend per share has been flat over 2016 and 2017. Controllable costs are below 2015 levels, even after taking inflation into account, while capital expenditure including small acquisitions has been below £1bn in each of 2016 and 2017. When combined with over £2bn of adjusted operating cash flow in each of the past three years, and over £900m of disposals since the start of 2016, Group net debt is now within the end 2017 £2.5bn-£3bn targeted range, underpinning the credit metrics currently required by the rating agencies for the Group's targeted strong investment grade credit ratings. The Group's return on average capital employed was 16% in 2016 and 14% in 2017, above its 10-12% boundary range.

2018-20 FOCUS ON PERFORMANCE DELIVERY AND FINANCIAL DISCIPLINE

The next phase of Centrica's strategic transformation will be focused on performance delivery and financial discipline, as we look to demonstrate customer-led gross margin growth and drive further cost efficiency towards being "the most efficient price setter" in our markets consistent with our desired levels of service and brand positioning. We will utilise our global divisional structure to improve organisational effectiveness across the Group and, with the energy and services world changing rapidly, particularly in areas of digital and physical technology, we will work to secure the capabilities we will need for 2020 and beyond.

At all times, we must also continue our focus on safety, compliance, conduct and operational excellence, including targeting further customer service improvements.

Cost efficiency will continue to deliver a significant underlying contribution to operating profit and cash flow in the near term. However, we need to demonstrate that customer-led gross margin growth will begin to make a larger contribution in the medium term.

Annual cost efficiency target to 2020 increased by £500m to £1.25bn per annum

Following delivery of our £750m per annum cost efficiency programme three years early, we are announcing a £500m per annum increase to our cost efficiency programme, taking the total targeted savings to £1.25bn per annum by 2020. The additional £500m per annum of savings will be delivered through further digitisation of customer journeys, application of field technology, simplification of our core business processes, continued improvement in functional costs and further procurement and supply chain savings. These savings will come out of our 2017 like-for-like controllable cost base of £4.5bn, which excludes energy and distribution costs and costs associated with smart metering and incremental operating cost in our growth businesses.

Group Overview continued

Around 65% of the savings are expected to be in operating costs, with 35% in controllable cost of goods sold. Delivery of these efficiencies will require an additional £300-£400m of one-off investment and exceptional rationalisation costs. After inflation, and excluding investment in growth activities in services, connected home, distributed energy and power and energy marketing and trading, we expect like-for-like controllable costs to be around £150m lower in 2020 than in 2017. We remain on track to deliver our target of nominal operating costs in 2020 below those of 2015, having absorbed inflation and funded our growth.

Around £350m of the efficiencies are expected to be realised in our Centrica Consumer division. These will be achieved from further digitisation of our customer operations activities in response to customer demand for self-service, and field force effectiveness driven by the integration of our field operations and associated back office and support activities. This will include increasing use of technology for remote fix services solutions. These savings will help to improve the underlying profitability of our businesses and will contribute to offsetting the impact of any default tariff cap in the UK. The efficiency initiatives will not come at the expense of our plans to continue to improve customer service levels.

We will also leverage further simplification and integration of our business processes in Centrica Business and across our Group functions. These will be achieved through simplification of our IT system landscape, transformation of our HR and Finance functions and further rationalisation of our property footprint. We are also targeting further procurement and supply chain savings enabled by better demand management and controls. All these savings will be facilitated by our move to global customer-facing divisions and functions.

Overall, we expect the new programme to involve reduction in like-for-like headcount of around 4,000 by 2020, with around 1,000 additional roles expected to be created in Connected Home, DE&P and EM&T between 2018-20.

UK energy market

In October, the UK Government published a draft bill designed to give Ofgem powers to impose a cap on all default energy tariffs including the Standard Variable Tariff (SVT). This is in addition to the safeguard tariff already in place for around 4m prepayment households, and a further cap extension to another 1m vulnerable customers from April 2018. We believe that price controls in competitive energy markets are not good for customers and evidence shows that where they have been introduced in other markets have led to reduced competition, less choice, and prices that tend to cluster around the cap.

British Gas has retained a competitively priced standard tariff throughout 2017 even after the implementation of a 12.5% increase in its standard electricity tariff in September and currently has the lowest standard tariff amongst the six largest suppliers, cheaper than 85% of other SVT contracts in the market. We remain well-positioned on aspects other than price with improving customer service levels, a focus on customer engagement and the development of innovative offers and propositions.

On 20 November, we announced a package of actions and proposed measures designed to reform the energy market and benefit customers. We announced seven unilateral steps we would take, including withdrawing the standard variable tariff (SVT) for new customers, introducing new offers for customers including bundles and online only tariffs, proactively offering customers a choice of fixed term tariffs at the end of their contract, introducing a new fixed term default tariff, engaging customers who are on the SVT, introducing simpler bills and driving further improvements in our own efficiency. We are on track to commence implementation of these actions no later than 31 March 2018. At the same time, we proposed a further seven recommended actions for Ofgem and the UK Government to improve the market further, including market-wide phase-out of the SVT altogether, levelling the playing field on Government social and environmental policy costs, moving funding of all energy policy costs from bills to a less regressive mechanism, making the smart meter roll-out more efficient, applying consistent definitions for vulnerable customers, making customer communication simpler and reviewing the current prepayment cap methodology.

We believe our proposals would improve the market for customers in the long-term and are a much more sustainable solution than a temporary price cap, which may also have unintended consequences. However, whichever final path is chosen to try and improve the market for customers, we believe we can deliver a sustainable and attractive business in UK energy supply, helped materially by our ongoing focus on cost efficiency. Centrica had 4.3m customers on the SVT at the end of 2017, and reflecting these measures we are taking we expect this to have reduced to around 3m by the end of 2018. With our SVT priced competitively relative to the market, currently £41 below the average standard price of the other five largest suppliers, and targeted additional cost efficiencies of £20 per dual fuel energy supply customer by 2020, we are currently well-placed competitively in the event of a price cap on default tariffs.

Group Overview continued

We will continue to engage constructively with the UK Government and Regulator and are committed to achieving a customer-focused competitive market which innovates, delivers great service and choice, is efficient, keeps bills as low as possible and provides protection for the vulnerable.

Demonstrating gross margin growth in Centrica Consumer

In Centrica Consumer, our strategic framework is developed around five areas of offer – energy supply, in-home servicing, peace of mind, home energy management and home automation. Energy supply and in-home servicing remain the core of our businesses today, with growth into peace of mind, home energy management and home automation products a natural extension of what we are good at, reinforcing and leveraging our core offerings.

Total Consumer unit gross margins increased slightly overall across 2015-17, reflecting our focus on customer segmentation and customer value. Total gross margin has reduced, reflecting the loss of customers over the period which is a reflection of the competitive environment we face. However, cost efficiencies have largely protected Centrica Consumer total adjusted operating profit over the same period, and enabled additional investment into our growth activities, including Connected Home.

Although Consumer account holdings, including Connected Home hubs, fell by 1,352,000, or 5%, in 2017, most of the losses were as a result of us changing our stance towards some sales channels which attracted customers from low or negative value segments. 87% of the net losses reflect our own choices, with 1,172,000 due to the roll-off of collective switch and white label fixed price tariffs in the UK, low margin aggregated customer books in North America, and the scaling back of door to door sales and the ending of a number of services protection plan trials in North America. The gross margin associated with these losses was £6m. The remaining 13% of net customer losses include 195,000 pre-payment meter accounts and 358,000 non-prepayment accounts reflecting competitive pressures on both sides of the Atlantic. These were partially offset by continued growth in Connected Home customers, up 373,000 in 2017.

We are focused on developing new customer offers, including bundles, to retain existing and attract new customers through improved customer segmentation and customer value management. This includes utilising British Gas Rewards, under which we are using digital and data science to personalise offers and rewards for customers. We now have over 700,000 customers signed up and British Gas Rewards has so far reduced customer churn by an estimated 1.5ppt. Growth in Local Heroes, our technology-led on-demand services platform, accelerated throughout 2017 and we now have over 7,000 tradespeople signed up and have completed 25,000 jobs in total in the UK.

In Ireland, market share was relatively stable despite increasingly competitive market conditions. In North America, our focus on value and customer service resulted in much improved retention in H2 2017 and we continue to see growth in services paid protection plans and on-demand jobs. We have also now closed our loss-making solar business.

In Connected Home, cumulatively we had sold 900,000 connected hubs at the end of 2017, and sold over 1.6m products. In 2017 we launched two new Hive subscription plans, 'Welcome Home' and 'Home Check', which enable customers to combine a mix of Hive products to set up their home to their personal preferences, and launched three new products. We also announced a partnership agreement with Eni gas e luce, enabling 8m Italian energy customers to purchase Hive products and solutions. In 2018, we are targeting a doubling of Connected Home revenue, 500,000 additional customers and over 1m product sales.

Demonstrating gross margin growth in Centrica Business

In Centrica Business, the strategic framework is also developed around five areas of offer – energy supply, wholesale energy, energy insight, energy optimisation and energy solutions. Energy supply and wholesale energy have historically been our core offers to business customers, but customers are now wanting more insight into their energy use and productivity, tools and services to optimise their energy use, and installed distributed energy generation solutions. As in Centrica Consumer, the new capabilities and propositions we have developed reinforce the core of the relationship.

Total business unit gross margins have fallen materially in this division over the past two years, in part due to the 2017 performance issues in the UK and North America energy supply businesses. Although cost efficiencies have helped offset some of this decline, the competitive environment remains challenging.

In North America Business, in response to the performance issues we faced in 2017, we are moving away from the standard power product historically sold in the market to one that more closely matches input cost recovery. In addition, we have completed system enhancements to provide greater granularity of gross margin drivers and improvements to the processes and controls around our load forecasting and risk management reporting, and have strengthened key areas of capability.

Despite recent performance issues, we retain a strong position in North America and the market plays to Centrica's strengths. It is large and it requires sophisticated energy price risk management, with value-added services propositions increasingly important for customers. We see good growth prospects for the business. We are the second largest business

Group Overview continued

energy supplier by market share in North America, with long-term customer relationships and a strong focus on choice, technology and service levels for our customers. We also have a large portfolio of pipeline capacity where we own the rights to move gas between multiple locations, allowing us to create value from optimising these positions. We see the opportunity to build on our strong position in the US North East and apply our business model organically and potentially through small bolt-on acquisitions in new regions. We are also driving improvements in UK Business, through cost efficiency, further development of our online offering, a greater focus on customer segmentation and value, and increased cross-sell of services with energy.

Post tax average returns on capital in North America Business in 2015 and 2016 were 10%, above the Group weighted average cost of capital. Clearly given the performance impacts and one-off accounting charge in 2017, returns were materially lower. However, despite the challenges and volatility in the power book, we believe the business can deliver attractive returns over the medium term, and we can offer new propositions, including from DE&P, which build on our strong customer relationships and add gross margin from our 240,000 customers.

Offering distributed energy solutions to our energy supply businesses will be a key aspect of differentiating our proposition for business customers. We continue to develop our capabilities in our DE&P business, which delivered increased revenue, customer sites, secured revenue and capacity under management in 2017. We are beginning to see real momentum. The development of our own distributed energy assets is proceeding to plan and sales ramped up materially in Q4 2017, as we utilise the full range of capabilities we have built up over the past two years, including from the acquisitions of Panoramic Power, ENER-G Cogen and REstore. In 2018, we are targeting at least a 50% increase in revenue.

EM&T also has strong capability, including from the Neas Energy acquisition in 2016. We see growth potential in our trading, route-to-market and LNG activities, given the increasingly global nature of energy markets and the trend away from centralised power towards distributed generation.

Our overall focus in Centrica Business is on reducing volatility of unit margins and improving returns in our energy supply businesses, while adding additional products and services. Business energy supply remains a high volume, low unit margin business, which can nevertheless deliver attractive returns and customers are demanding more services along with energy supply. We are currently building a single marketing portal, accessing a cloud based integrated solutions platform which addresses all five areas of offer and will allow customers to access our full suite of products and services in one place. We have a good portfolio of businesses and have built a strong platform from which to deliver growth in gross margin.

Outlook for Exploration & Production and Centrica's investment in nuclear

Having created a stronger, more sustainable European E&P business with the formation of Spirit Energy, Centrica will continue to work with our partners, Stadtwerke München, on the potential for further opportunities to strengthen the business. This could include further consolidation, with Centrica having a smaller lower ownership in any larger entity as long as the Group retains sufficient influence to shape the strategic direction of the business. We would also be prepared to reduce our shareholding in Spirit Energy to below 50% if the right value-creating opportunity came along.

With CSL now also an E&P business, we will look to create functional synergies between CSL and Spirit Energy and look to maximise the commercial optionality of the CSL-owned Easington gas processing terminal. From 2018, we expect to report both E&P business units under one reporting segment.

On nuclear, we currently retain our 20% equity interest in the entity which owns the UK operating nuclear fleet of power stations. However, we stated in 2015 that we were treating this holding as a financial investment, and we are now announcing that, subject to ensuring alignment with our partner and being sensitive to Government interests, we would hope to divest our shareholding in nuclear by the end of 2020.

2018-20 GUIDANCE

The Group's financial framework set out in 2015 remains the basis for our financial guidance. However, we are providing some specific guidance for the period 2018-20. We are targeting adjusted operating cash flow of £2.1bn-£2.3bn per annum on average over the period, although depending on the implementation of the proposed default tariff cap in the UK there is more risk to that range in 2019 if the immediate impact of any price cap was material and occurred before we have fully realised cost efficiencies from our additional £500m per annum programme.

Capital reinvestment, including consolidating 100% of Spirit Energy capital investment, and any capability-building bolt-on acquisitions, will be limited to no more than £1.2bn per annum. We also do not plan to pursue any major growth acquisitions, reflecting the uncertainty surrounding the UK energy supply market and our desire to maintain balance sheet strength consistent with our targeted strong investment credit ratings.

Group Overview continued

We expect to maintain the current level of the dividend per share, subject to generating adjusted operating cash flow within the target range and net debt remaining within a £2.25bn-£3.25bn range. Growth in the dividend will only be possible when adjusted operating cash flow growth has been demonstrated.

2018 OUTLOOK AND SUMMARY

A summary of the Group's 2018 targets, including those provided as part of the 2018-20 guidance, is listed below. All these targets are subject to the usual variables of weather patterns, commodity prices and operational performance.

- Adjusted operating cash flow expected to be in the range £2.1bn-£2.3bn.
- Group capital investment expected to be no more than £1.1bn in 2018. Spirit Energy total capex expected to be around £500m in 2018.
- Expect a flat 2018 full year dividend per share of 12.0p.
- £200m of efficiency savings in 2018.
- A like-for-like headcount reduction of around 1,000 in 2018.
- Net debt in a £2.5-£3.0bn range in 2018.

In 2018, competitive pressures, the impact of a full year of the prepayment price cap and the implementation of a price cap for vulnerable customers, and our actions to move customers off the SVT, are likely to put pressure on gross margins in our UK residential energy supply business. However, further cost efficiency delivery and gross margin growth from the rest of our customer-facing businesses, including improvement in North America Business and UK Business, are expected to drive an increase in adjusted operating profit in our customer-facing divisions overall in 2018. This is despite the expectation of reduced adjusted operating profit from EM&T reflecting expected losses from the one remaining legacy gas contract. In addition, our E&P businesses, Spirit Energy and CSL, should both benefit from higher production in 2018. The Group's net finance charge is expected to be lower, reflecting the debt repurchase programme we are announcing today, while the Group effective tax rate is currently expected to be higher than 2017, primarily reflecting expected higher adjusted operating profit in the more highly taxed E&P businesses and no expected benefits from tax settlements and US tax rate changes.

The Group faced a challenging external environment in 2017, which combined with H2 performance issues in Centrica Business energy supply resulted in weak financial results overall. However, we are determined to restore shareholder value and confidence. Centrica has excellent people, capabilities and market positions and a well-defined strategy which plays to our strengths as the world of energy supply and services continues to evolve. We are focused on our core of energy and services and the first phase of our strategic repositioning is complete.

Building on the progress we have made over the past three years, the next phase of the strategy is focused on performance delivery and financial discipline, as we target customer-led gross margin growth and drive further cost efficiency, while maintaining capital discipline and a strong balance sheet. It is this combination which we expect will underpin the Group's cash flows and dividend through to 2020.

Business Review

CENTRICA CONSUMER

UK HOME

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	1.39	1.32	5%
Brand NPS	1	3	(2pt)
Complaints (per 100,000 customers) ¹			
Energy supply	5,167	6,491	(20%)
Services	2,170	1,664	30%
Customer account holdings ('000s)			
Energy supply ('000s)			
Standard variable tariff (SVT)	6,728	7,863	(14%)
Prepayment	2,272	2,467	(8%)
Fixed term	3,874	3,920	(1%)
Total Energy supply	12,874	14,250	(10%)
Services ²	7,469	7,471	(0%)
Total customer account holdings ('000s)	20,343	21,721	(6%)
Installs and on demand jobs ('000s)	327	338	(3%)
Energy use per residential energy customer account			
Gas (therms)	422	442	(5%)
Electricity (kWh)	3,382	3,477	(3%)
Total energy use per residential energy customer account (kWh)	8,367	8,764	(5%)
Gross revenue (£m)			
Energy supply	7,073	7,704	(8%)
Services	1,463	1,548	(5%)
Total gross revenue (£m)	8,536	9,252	(8%)
Total adjusted gross margin (£m)	1,987	2,111	(6%)
Annualised cost per Home customer (£)	90	98	(8%)
Adjusted operating costs as a % of adjusted gross margin	49%	52%	(3ppt)
Adjusted operating profit (£m)			
Energy supply	572	553	3%
Services	247	257	(4%)
Total adjusted operating profit (£m)	819	810	1%
Adjusted operating cash flow (£m)	928	1,053	(12%)

1. Complaints per 100,000 customers as reported to Ofgem for UK energy supply and the FCA for UK Home services.

2. 2016 has been reduced by 55,000 following data assurance activity of our analytical system.

Business Review continued

UK HOME

Our leading position in UK energy supply and services remains core to our business and we are making good progress on our transformational journey to improve customer service levels, reduce costs and develop propositions to expand and deepen relationships with households.

Delivering high levels of customer service is fundamental and total energy supply complaints fell by 224,000, or 20% per 100,000 customers, as we continued to invest in transforming customer journeys and agent training. However, the number of services complaints increased by around 31,000, or 30% per 100,000 customers, reflecting operational disruption following the centralisation of planning and dispatch activities. Our engineer customer visit NPS remained high at 67 and we remain highly focused on improving customer service levels in 2018. UK Home Brand NPS reduced by 2pts to 1, reflecting the impact of our standard tariff electricity price increase in September and a broader negative sentiment surrounding UK energy suppliers.

Cost efficiency is also fundamental in allowing us to maintain a competitive pricing position. Annualised cost per home account fell by 8% compared to 2016, with efficiencies realised through our new operating model including the combination of multiple customer operations teams into one organisation, lower incoming call volumes resulting from investment in our digital platform which has made it easier to complete transactions online, consolidation of our planning and dispatch activities, and the integration of seven separate field forces into one. Our leaner, more efficient operating model has also enabled us to improve our speed to take new offers to market, for example digital, rewards and bundling.

Total energy customer account holdings fell by 1,376,000, or 10%, during 2017, including the roll-off of 967,000 low-margin collective switch and white-label fixed price tariffs. The remaining 409,000 account losses include 195,000 prepayment customers, with the remaining 214,000 reflecting market switching trends. Within this, in line with our strategy to reduce the number of customers on the SVT, we saw a 14% drop in SVT account holdings and an increase in the number of customers on British Gas fixed term tariffs. The number of services accounts was flat, with growth of 77,000 in H2 reflecting an increased focus on offers targeted at higher value energy customers and the deployment of digital offers to partner channels.

Our UK services business completed 9m customer visits in 2017 and remains a source of competitive advantage in the UK given our nationwide scale which is very difficult to replicate. In 2017, we further strengthened our services offer with the UK nationwide launch of our technology-led 'Local Heroes' on-demand services platform, which plays towards the market trend of more customers seeking on-demand and home emergency offers. Local Heroes provides customers with access to local tradesman backed by a British Gas guarantee and growth accelerated throughout 2017, with over 7,000 tradespeople signed up and 25,000 jobs now completed.

In Q4 we developed new customer offers targeted at increasing customer value, including the launch of our on-line only tariff, bundling energy with services or connected home products and more sophisticated risk-based services pricing. We will continue to develop these offers further in 2018. We launched British Gas Rewards in April, which uses our data to gain a deeper understanding of customer preferences and allows customers to select personalised offers, like loyalty energy days. Over 700,000 customers have signed up to date and we are already seeing greater customer engagement, with retention rates 1.5ppt higher for customers signed up to British Gas Rewards.

We continue to lead the industry in the smart meter roll-out and have now installed around 5m smart meters in UK homes, providing customers with additional insight on their energy usage and bringing an end to estimated bills for customers, reducing the number of calls we receive relating to billing and meter reading queries.

Overall UK Home adjusted operating profit was up 1% to £819m, within which energy supply profit was up 3% to £572m. Energy gross margin reduced by 4%, reflecting the impact of warmer weather, lower customer account holdings and the implementation of the prepayment cap which came into effect in April 2017 as a result of the Competition and Markets Authority remedies. However, these negative impacts were more than offset by strong cost efficiency progress. Services gross margin was down 10%, which includes the impact of an increase in pension costs and lower average customer account holdings through the year. However, cost efficiency progress was strong and as a result, operating profit was down by less, by 4% to £247m.

Business Review continued

IRELAND

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.98	0.72	36%
Brand NPS	17	20	(3pt)
Complaints (per 100,000 customers) ¹	9	11	(18%)
Customer account holdings ('000s)	679	692	(2%)
Energy use per residential energy customer account (kWh)			
Gas (therms)	369	381	(3%)
Electricity (kWh)	4,495	4,558	(1%)
Energy use per residential energy customer account (kWh)	7,659	7,998	(4%)
Gross revenue (£m)	827	781	6%
Adjusted gross margin (£m)	136	141	(4%)
Annualised cost per Home customer (£) ²	108	128	(16%)
Adjusted operating costs as a % of adjusted gross margin ²	57%	60%	(3ppt)
Adjusted operating profit (£m)	47	46	2%
Adjusted operating profit (€m)	54	56	(4%)
Adjusted operating cash flow (£m)	62	84	(26%)

1. Complaints per 100,000 customers as reported to CER.

2. 2016 restated for foreign exchange movements.

Our Irish business, Bord Gáis Energy, performed well in 2017. We continue to focus on customer service, with increased training, robotics process automation and enhancements to our customer-facing IT platforms all contributing to an 18% reduction in complaints. We also successfully upgraded our enterprise billing platform in the year, which will support increased digitisation over the coming years. NPS fell by 3 points to 17, reflecting a more negative customer perception of energy suppliers following Q4 2017 price increases.

Total customer account holdings fell by 13,000, or 2%, reflecting increased market competition, including from new entrants into the market. However, electricity customer account holdings increased by 7,000, or 2%, as we successfully converted more of our customers to a dual fuel offering. As in the UK and North America, we are offering a wider choice of products to our customers and having launched our range of Hive automation products in Ireland in H1, we are focused on building brand awareness around our Connected Home propositions.

Whitegate, our flexible gas-fired power station, recorded another good performance, with a load factor of 85% and total generation volumes of 3,228GWh, up 3% compared to 2016.

Adjusted operating profit was up 2% compared to 2016, although down 4% in local currency. This reflects the impact of a competitive environment, which was broadly offset by cost efficiencies and good performance from our trading and power generation business. Adjusted operating cash flow was down 26% compared to 2016, which benefited from a one-off payment related to the cessation of a gas storage contract.

Business Review continued

NORTH AMERICA HOME

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.83	1.43	(42%)
Brand NPS ¹	33	32	1pt
Energy supply complaints (per 100,000 customers) ²	85	109	(22%)
Customer account holdings ('000s)			
Energy supply ('000s)			
Texas	654	701	(7%)
US North East	983	1,206	(18%)
Canada	933	990	(6%)
Total energy supply	2,570	2,897	(11%)
Services	869	872	(0%)
Total customer account holdings ('000s)	3,439	3,769	(9%)
Installs and on demand jobs ('000s)	669	605	11%
Energy use per residential energy customer account			
Gas (therms)	1,390	1,240	12%
Electricity (kWh)	10,397	10,740	(3%)
Total energy use per residential energy customer account (kWh)	24,487	23,056	6%
Gross revenue (£m)			
Energy supply	2,246	2,141	5%
Services	476	561	(15%)
Total gross revenue (£m)	2,722	2,702	1%
Total adjusted gross margin (£m)	650	654	(1%)
Annualised cost per Home customer (£) ³	185	189	(2%)
Adjusted operating costs as a % of adjusted gross margin ⁴	69%	69%	0ppt
Adjusted operating profit (£m)			
Energy supply	151	143	6%
Services	(32)	(50)	36%
Total adjusted operating profit (£m)	119	93	28%
Adjusted operating profit (\$m)	156	124	26%
Adjusted operating cash flow (£m)	154	146	5%

1. 2017 North America Brand NPS is based on existing energy Brand NPS measures and now includes newly implemented Services Brand NPS measure.

2. Complaints per 100,000 customers as reported by various regulatory bodies.

3. 2016 restated for foreign exchange movements.

4. 2016 restated to reflect portfolio changes and foreign exchange movements.

Business Review continued

NORTH AMERICA HOME

As in the UK, energy supply and services remains core to our customer offer in North America and we are well positioned to expand and deepen relationships with households. We remain focused on improving the sustainability of our business in our chosen markets by improving customer service levels, reducing costs, and developing innovative and differentiated offers.

We delivered further improvements in customer service in 2017, with additional training provided for our customer service agents to improve customer interactions, and enhancements to our digital platform enabling improved self-serve capability. These actions contributed to a 22% reduction in complaints compared to 2016 while our online reputation improved significantly. Brand NPS also increased in H2 and ended the year 1pt higher than at the end of 2016.

Cost efficiency remains a core priority. The integration of our energy and services business combined with the disposal of non-core businesses in 2016 has allowed us to simplify our processes further, reduce headcount and consolidate office locations. We have now closed or sold a number of loss-making services businesses in non-core markets and have completed our exit from the residential solar market, which we announced in July. Centrica's participation in commercial solar in North America will continue as a part of the DE&P customer offering. Overall, annualised cost per home account fell by 2%.

The total number of energy supply accounts fell by 327,000, or 11%, during 2017. In the US North East, customer account holdings fell by 18%, driven by a competitive pricing environment and the loss of 108,000 low-margin aggregated auction customers. In Texas, customer account holdings were down 7% due to competitive pressure and a pause of door-to-door sales due to regulatory concerns. However, H2 2017 customer retention improved in Texas compared to H2 2016, reflecting higher levels of customer service and proactive renewal of customers on fixed contracts. In Canada, regulatory changes required us to cease our door-to-door sales channel which contributed to a customer account decline of 6%. However, we have now entered into a number of retail partnerships that will expand our number of sales channels. Services customer account holdings were broadly flat compared to 2016, although within this paid Direct Energy protection plans rose 18%.

We are focused on differentiating our customer offer and developing bundled propositions. Direct Energy is currently a key channel for Hive products in North America with 80,000 Hive hubs having been sold with an energy supply tariff. In 2017, 21% of energy sales were bundled with one or more product or offer, such as a protection plan or a Hive product, compared to 17% in 2016.

North America Home adjusted operating profit increased by 28% and adjusted operating cash flow was up 5%. Within this, energy supply gross margin was up 2% despite the fall in customer account holdings, reflecting our focus on more valuable customer segments, while adjusted operating profit was up 6% which includes the benefit of cost efficiencies. Services gross margin was down by 7% reflecting the closure of the solar business, which when combined with other actions taken to improve efficiency resulted in a reduced adjusted operating loss.

Business Review continued

CONNECTED HOME

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.18	0.00	nm
Brand NPS	39	45	(6pt)
Cumulative hubs installed ('000s)	900	527	71%
Hubs sold in year ('000s)	373	235	59%
Products sold in year ('000s)	871	462	89%
Active subscriptions ('000s)	94	34	176%
Gross revenue (£m)	42	33	27%
Adjusted gross margin	8	7	14%
Adjusted operating costs as a % of adjusted gross margin	1,134%	703%	431ppt
Adjusted operating (loss) (£m)	(95)	(50)	(90%)
Adjusted operating cash flow (£m)	(121)	(58)	(109%)

Our Connected Home business is utilising technology to provide offers that meet customer needs across the strategic pillars of peace of mind, home energy management and home automation. It is also an important source of differentiation for our energy and services businesses and the NPS for British Gas customers who have a Hive product is 10 points higher than those who do not.

In 2017 we launched three new products, the Hive Camera, Hive Leak and, in North America, the Hive Active Thermostat with air-conditioning, while in January 2018 we launched our new camera, Hive View. These new products take Connected Home more deeply into the peace of mind pillar, as we deepen our diagnostics capability to provide additional comfort to home owners. Additional planned product, proposition and feature launches in 2018 will strengthen our customer offer further.

The full range of Hive automation products was launched in North America and Ireland during the year, while we also signed our first strategic partnership deal outside of our core energy and services markets. Our partnership with Italian energy company Eni gas e luce will provide their 8 million customers in Italy with access to the full range of Hive home automation products. We continue to integrate with other connected home eco-systems, including through our successful partnership with Amazon Echo, where 23% of our customers have used Alexa, Amazon's voice assistant, in combination with Hive.

We sold 373,000 connected hubs in 2017, taking the total number installed to 900,000. Hive products are now being sold through around 50 retailers in the UK and we have sold over 1.6m connected home products in total, with the number of products per hub increasing to 1.8 by the end of 2017 compared to 1.4 at the start of the year.

We now have 94,000 customers on subscription offers or payment plans. This includes 51,000 'Boiler IQ', which uses sensors to remotely diagnose boiler faults, and 43,000 on Hive propositions including 'Welcome Home', 'Close to Home' and our heating and cooling plans in the UK, Ireland and North America. These propositions enable customers to personalise, control and interact with their home through the Hive product range.

Gross revenue increased by 27% to £42m, reflecting increased sales of hubs and products from our more diverse product range, with gross margins remaining attractive at around 20%. Connected Home reported an increased adjusted operating loss and adjusted operating cash outflow, reflecting higher investment in product and platform development, app user experience and customer acquisition costs.

Business Review continued

CENTRICA BUSINESS

UK BUSINESS

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.33	0.18	83%
Brand NPS ¹	(11)	(8)	(3pt)
Complaints (per 100,000 customers) ²	15,022	19,659	(24%)
Customer account holdings ('000s)			
Small and medium enterprises (SME)	537	566	(5%)
Industrial and commercial (I&C)	116	151	(23%)
Customer account holdings ('000s)	653	717	(9%)
Total customer energy consumption			
Gas (mmth)	437	533	(18%)
Electricity (GWh)	11,299	12,562	(10%)
Gross revenue (£m)	1,830	2,031	(10%)
Adjusted gross margin (£m)	212	305	(30%)
Adjusted operating costs as a % of adjusted gross margin	90%	78%	12ppt
Adjusted operating profit (£m)	4	50	(92%)
Adjusted operating cash flow (£m)	131	418	(69%)

1. 2016 Brand NPS has been restated to exclude Industrial & Commercial (I&C) customers and is on a 3 month rolling basis.

2. Complaints per 100,000 customers as reported to Ofgem.

UK Business adjusted operating profit fell significantly in 2017, reflecting the negative impacts of additional costs resulting from commodity volatility and energy volume settlements relating to 2016 in Q1 2017, warmer weather and the impact of increased competition on customer account holdings. The combination of these factors resulted in a 30% fall in gross margin in 2017, which was only partially offset by further cost efficiencies and reductions in bad debt, the latter enabled by improved operational performance.

Operationally, UK Business delivered improved customer outcomes in 2017, with better timeliness and accuracy of customer bills. This helped drive a 8% reduction in call volumes and a 24% reduction in complaints compared to 2016. However, customer account holdings fell 64,000 or 9%, with around half the losses in I&C, reflecting our decision not to pursue renewal of some low value multi-site contracts, but also increasing competitive intensity. The remaining losses were of SME customers, reflecting competitive intensity with 67 active competitors and high levels of switching activity.

Against this competitive backdrop, we are focusing our retention and acquisition activities on the higher value SME segments, continuing to build relationships with energy brokers and improving our customer portal facilities to allow them to manage their whole portfolio online. This has led to an increase in broker-led acquisitions, which should aid our commercial performance. In 2018 we expect some recovery in gross margin given a more normal weather and commodity environment, and combined with further cost efficiency expect adjusted operating profit to improve towards the levels seen in 2016.

Adjusted operating profit of £4m was down 92% in 2017, reflecting the additional costs in Q1, warmer weather and lower customer account holdings, partly offset by cost efficiencies and bad debt reductions. Working capital management has remained a key area of focus, and reflecting this, adjusted operating cash flow was £131m despite the material reduction in operating profit.

Business Review continued

NORTH AMERICA BUSINESS

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.00	0.00	nm
Brand NPS	33	31	2pt
Complaints (per 100,000 customers) ¹	21	34	(38%)
Customer account holdings ('000s)	570	590	(3%)
Total customer energy consumption			
Gas (mmth)	5,930	5,827	2%
Electricity (GWh)	83,980	90,535	(7%)
Gross revenue (£m)	8,158	7,664	6%
Adjusted gross margin (£m)			
Gas retail and wholesale	269	264	2%
Power retail and wholesale	147	298	(51%)
Total adjusted gross margin (£m)	416	562	(26%)
Adjusted operating costs as a % of adjusted gross margin ²	72%	51%	21ppt
Adjusted operating profit (£m)	71	221	(68%)
Adjusted operating profit (\$m)	87	291	(70%)
Adjusted operating cash flow (£m)	87	285	(69%)

1. Complaints per 100,000 customers as reported by various regulatory bodies.

2. 2016 restated for foreign exchange movements

North America Business delivered a poor financial result in H2 2017, with adjusted gross margin down 26% and adjusted operating profit down 68%. The drivers of lower gross margin were primarily in the power retail business. Total power adjusted gross margin was down 51%, reflecting increased competitive intensity, changes to the market structure and related input costs, including higher unit capacity charges, and the impact of warmer weather on consumption and a subsequent under recovery of unitised non-commodity costs. The financial result also includes a one-off non-cash charge of £76m (£46m post-tax) relating to a reassessment of the historic recognition of unbilled power revenues. In addition, warmer weather reduced opportunities for gas optimisation, however our gas retail business performed well and overall gas gross margin was slightly up.

In response to the challenges we faced in 2017, we have taken actions to drive improvements in profitability and reduce volatility in the retail power book. These include introducing a new standard product offering that more closely matches input cost recovery, completion of system enhancements to provide greater granularity of gross margin drivers, and improvements to the processes and controls around our load forecasting and risk management reporting. We also implemented several enhancements to our online customer platform during 2017, with improved response times on issue resolution and an enhanced digital journey for acquisitions helping improve the customer experience. Our digital Energy Portfolio platform, launched in H2 2016, has also given customers direct access to our energy expertise while providing dynamic energy procurement options. In addition, we made improvements to our billing processes and, reflecting all of this, complaints fell 38% compared to 2016 and NPS increased by 2 points to 33.

We continue to expand our offering into new geographies and delivered higher sales in our key growth areas of the US Mid-Continent, California and Canada. Overall, total customer account holdings reduced by 20,000 during 2017, which reflects a focus on higher value accounts and a reduction in our small business accounts. However, the competitive environment impacted our sold unit margins, down 20% in power and 22% in gas for new contracts.

An increased focus on energy efficiency has lowered power usage per customer across the industry and we are well positioned to benefit from this market trend, with North America Business working closely with the Distributed Energy & Power business to develop joint propositions to deepen the customer relationship. North America Business continues to be an important sales channel for distributed energy products, including Panoramic Power's wireless energy insight management solutions. Over 11,000 sensors were deployed to Direct Energy customers in 2017. We are also planning to expand our CHP offering in North America following the acquisition of ENER-G Cogen in 2016, while the DE&P acquisition of demand response company, REstore, provides additional capability.

North America Business reported a 68% fall in adjusted operating profit and a 69% reduction in adjusted operating cash flow. Around half of the reduction in adjusted operating profit reflects the impact of the competitive environment, warmer weather, fewer optimisation opportunities and the impact of higher capacity costs, with the other half reflecting the one-off non-cash charge. In 2018, we are focused on continuing to deliver a high-quality customer experience, targeted offers for higher value customer segments and offering an increasing range of DE&P products and propositions. However, we expect to see continued competitive pressure on electricity supply margins, and therefore growth in adjusted operating profit will be limited, after adjusting for the impact of the one-off non-cash charge.

Business Review continued

DISTRIBUTED ENERGY & POWER

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) ¹	0.94	1.36	(31%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) ¹	0.00	0.00	nm
NPS	20	n/a	nm
Optimisation capacity (MW) ²	1,907	928	105%
Active customer sites	4,778	3,924	22%
Secured revenue (order book) (£m) ³	370	299	24%
Gross revenue (£m)	171	161	6%
Adjusted gross margin (£m)	37	29	28%
Adjusted operating costs as a % of adjusted gross margin ³	212%	182%	30ppt
Adjusted operating (loss) (£m)	(53)	(26)	(104%)
Adjusted operating cash flow (£m)	(30)	(15)	(100%)

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

2. 2016 restated to be on a consistent basis across all geographies.

3. 2016 restated for foreign exchange movements

Distributed Energy & Power (DE&P) is focused on the three Centrica Business strategic pillars of energy insight, energy optimisation and energy solutions. Since the formation of the DE&P business unit in H2 2015, we have grown our capability both organically and inorganically. The targeted acquisitions of Panoramic Power, REstore and ENER-G Cogen provide us with strong positions in each of the three strategic pillars and enable us to capitalise on the global trend towards distributed energy and to develop a range of products and services to meet the needs of customers.

Our subscription-based Panoramic Power energy insight product provides customers with real-time visibility of their energy usage plus actionable insights. We now have 53,000 sensors deployed across more than 1,800 sites in 30 countries and are collecting around 14bn data points per month. It has proved successful in changing the dynamic of the conversation with customers and provides opportunities to cross-sell energy optimisation and solutions services.

We acquired REstore, Europe's leading demand response aggregator, in November. REstore provides key capabilities in energy optimisation and provides over 850MW of flexible power capacity to grid operators. The power is aggregated from a 2.2GW flexible portfolio of industrial and commercial customers across Belgium, the UK, France and Germany and generates value for businesses through ancillary services including frequency response and capacity markets. Through this acquisition, demand response aggregation will become a core part of our offer to customers, and DE&P's optimisation capacity has now increased to 1.9GW.

In energy solutions, DE&P now has over 1,400 long-term contracted sites and active solutions, mostly CHP-based, in 13 countries, having sold both off-the-shelf and bespoke end-to-end solutions. We have also expanded our distributed solutions offering in North America, which will be a major focus area for growth.

In total, the number of DE&P active customer sites has increased by 22% over the past 12 months, with growth particularly strong in Q4 2017. Total secured revenue, our forward order book, increased 24% in 2017.

DE&P also includes our fleet of smaller gas-fired peaking plants at Brigg, Peterborough and Barry. Construction is progressing well on our three new flexible generation projects, a 49MW battery storage facility at Roosecote and two 50MW fast response gas-fired plants at Brigg and Peterborough. All three have 15 year capacity contracts starting in October 2020 and were successful in the 2018/19 T-1 capacity auction.

We continue to innovate in Local Energy Markets and now have over 300 homes and businesses registered to take part in our three year trial in Cornwall. In 2017 we installed the largest flow battery in the UK and in 2018 we expect to install storage and solar PV in 100 homes and commence larger installations of storage, renewables and distributed generation across up to 15 businesses as part of the trial.

DE&P gross revenue increased by 6% compared to 2016, and by 34% on an underlying basis when reflecting the impacts of the disposal of the non-core building energy management systems business and the scaling back of our UK solar business following the removal of the feed-in-tariff. This growth reflects the organic increase in customer sites and a full year impact from ENER-G Cogen, which was acquired in May 2016. DE&P reported an increased adjusted operating loss of £53m and an increased adjusted operating cash outflow of £30m, reflecting increased headcount to build new capability and higher investment in the development of new customer propositions, sales channels and technology to drive growth. We expect DE&P to deliver continued revenue and gross margin growth in 2018, although we will continue to make further investment to drive this growth and therefore expect the current year operating loss to be similar to 2017.

Business Review continued

ENERGY MARKETING & TRADING

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.00	0.00	nm
Adjusted operating profit (£m)	104	161	(35%)
Adjusted operating cash flow (£m)	262	198	32%

Energy Marketing & Trading (EM&T) is focused on the Centrica Business strategic pillars of energy optimisation and wholesale energy. In addition to expanding its route to market offers, global LNG presence, and trading and optimisation activities across Europe, EM&T continues to serve its core purpose of managing commodity profit risk and providing wholesale market access for the Group.

The acquisition of Neas Energy in Q4 2016 has enhanced EM&T's capabilities and geographical reach, as well as giving EM&T access to Neas' advanced optimisation platform, 'Neas Direct', which provides hedging and optimisation strategies and route to market services to our customers. EM&T now serves customers who own decentralised assets with installed capacity of around 10GW, predominantly in Denmark, the UK, Germany and Sweden, enabling them to access our expertise to capture value and provide flexibility services to their assets. Neas Energy has performed ahead of expectations since its acquisition, and it delivered a strong trading and optimisation result in 2017, particularly in H1 during periods of power volatility in Northern European markets.

In LNG, we continue to expand our global business in advance of the first delivery from our contract with Cheniere, which is expected in September 2019 from the Sabine Pass facility in Louisiana. We have built a full range of LNG trading, optimisation and operations capability and continue to transact multiple 'free on board' and 'delivered ex-ship' cargoes from a range of locations globally. In November, we traded our hundredth cargo outside the UK, just three years after trading our first cargo.

EM&T has major flexible legacy gas contracts and associated hedges with 'take or pay' arrangements, where the payments are made for gas even if delivery is deferred to future periods. These were inherited by Centrica on demerger and are part of an overall profitable Centrica portfolio. The profit and cash flow from these contracts and hedges will vary between periods based on the commodity price environment and decisions we take to optimise them. In 2017, the three remaining contracts and associated hedging generated £36m of gross margin, having made £118m of gross margin in 2016, reflecting our take or pay strategy to maximise the contracts' value over their lives. During 2018, the two historically most profitable flexible legacy gas contracts will end, leaving one contract which expires in 2025 and is currently expected to be loss-making based on the current level of gas prices. As a result, we currently expect 2018 EM&T adjusted operating profit to be no more than half the level of 2017. This contract will continue to be managed for value, and we will look to utilise the contract optionality to capture favourable market conditions as they arise.

EM&T adjusted operating profit was £104m in 2017 compared to a £161m in 2016, although after excluding the contribution from the flexible legacy gas contracts, adjusted operating profit associated with core EM&T activities increased by 58% to £68m. This underlying increase reflects further strong trading and optimisation and route-to-market performance and a full year's impact of the Neas Energy acquisition. Adjusted operating cash flow increased by 32% to £262m, predominantly reflecting the timing of cash flows associated with the flexible gas contracts between 2016 and 2017.

Business Review continued

CENTRAL POWER GENERATION

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked) ¹	0.94	1.36	(31%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked) ¹	0.00	0.00	nm
Power generated (GWh)			
Gas-fired	7,468	10,092	(26%)
Nuclear	12,777	13,030	(2%)
Total power generated (GWh) ²	20,245	23,122	(12%)
Achieved clean spark spread (£/MWh)	9.9	9.2	8%
Achieved power price – nuclear (£/MWh)	42.5	44.2	(4%)
Adjusted operating profit (£m)	35	75	(53%)
Adjusted operating cash flow (£m)	58	(1)	nm

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

2. Total power generated for 2016 has been restated to exclude Renewables generation, following the disposal of the Lincs windfarm joint venture in February.

Our focus for growth is on distributed and flexible generation, and we made further significant progress in 2017 to reduce the scale of our Central Power Generation business in line with our strategy.

In February 2017, we completed our exit from wind power generation with the disposal of our 50% interest in the Lincs windfarm for £214m. The sale resulted in an exceptional pre-tax profit on disposal of £64m (post-tax £58m). In August, we completed the sale of our large CCGTs at Langage and South Humber Bank and the Kings Lynn B CCGT development project for £314m in total, which resulted in a total pre-tax exceptional profit of £8m (post-tax £5m), comprising an impairment write back and a small loss on disposal.

Centrica retains a 20% equity interest in the entity which owns and operates the eight nuclear stations in the UK. Our share of nuclear generation volumes remained high at 12.8TWh, the second highest output achieved since our investment in 2009. However, this was 2% lower than in 2016, reflecting slightly higher unplanned outages.

Central Power Generation adjusted operating profit was £35m, 53% lower than 2016. This was primarily driven by a lower achieved power price for Nuclear, including the impact of historic hedging, and the impact of our exit from wind power generation. Adjusted operating cash flow was £58m compared to an outflow of £1m in 2016, with positive movements in working capital in comparison to 2016 more than offsetting a reduction in Nuclear dividends received.

Business Review continued

EXPLORATION & PRODUCTION

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.39	0.55	(29%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	0.14	0.30	(53%)
Gas production volumes (mmth)			
Europe	1,891	1,929	(2%)
Americas	895	1,358	(34%)
Total gas production volumes (mmth) ¹	2,786	3,287	(15%)
Liquids production volumes (mmbœ)			
Europe	13.7	15.4	(11%)
Americas	2.0	2.1	(5%)
Total liquids production volumes (mmbœ) ¹	15.7	17.5	(10%)
Total production volumes (mmbœ) ¹	61.0	71.2	(14%)
Average achieved gas sales prices (p/therm)			
Europe	40.7	35.5	15%
Americas	14.8	12.1	22%
Average achieved liquid sales prices (£/boe)			
Europe	34.3	32.0	7%
Americas	24.7	23.0	7%
Lifting and other cash production costs (£/boe) ²			
Europe	14.9	12.9	16%
Americas	6.9	4.7	47%
Adjusted operating profit (£m)	184	187	(2%)
Adjusted operating profit after tax (£m)	37	50	(26%)
Adjusted operating cash flow (£m)	448	655	(32%)
Net investment (£m) ³			
Capital expenditure (including small acquisitions)	439	518	(15%)
Cash acquired through Spirit Energy transaction	(78)	-	nm
Net disposals	(289)	(29)	(897%)
Net investment (£m)	72	489	(85%)
Free cash flow (£m) ³	376	166	127%

1. Includes 100% share of Canadian assets owned in partnership with Qatar Petroleum until 29 September 2017 and 100% share of Spirit Energy assets owned in partnership with Stadtwerke München effective from 8 December 2017.

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

3. See pages 76 to 78 for an explanation of the use of adjusted performance measures.

Business Review continued

EXPLORATION & PRODUCTION

In line with our strategy, we now have a stronger, more sustainable Exploration & Production (E&P) business focused on Europe. Following the disposal of our assets in Trinidad and Tobago and Canada during the year, on 8 December Spirit Energy was launched, a newly formed entity combining Centrica's E&P business with that of Bayerngas Norge. The transaction creates a leading independent European E&P business with an attractive mix of producing assets and development projects. Centrica owns 69% of the new business, and will consolidate 100% of the financial result.

The sale of our remaining portfolio of gas assets in Trinidad and Tobago was completed in May for \$35m (£26m), which resulted in a pre- and post-tax exceptional loss on disposal of £9m. We announced the disposal of our interest in the joint venture portfolio of assets in Canada in June, and the sale was completed in September for C\$420m (£255m), leading to total pre-tax exceptional loss on disposal and impairment charges of £125m (post-tax £109m).

Total gas and liquids production of 61.0mboe was down 14% compared to 2016 principally due to the sale of Canada and Trinidad. Production in Europe was down 5%, or 6% when excluding Bayerngas Norge production following the launch of Spirit Energy. This principally reflects lower production from Morecambe due to our decision to undertake onshore and offshore asset integrity works to improve safety, operational efficiency and underpin the residual life of the asset. Excluding Morecambe, the natural decline from the rest of the portfolio was fully offset by the positive impact of a first full year of production from the Cygnus gas field, which came onstream in December 2016 and is performing ahead of expectations.

We continue to focus our investment on the most attractive development options in our portfolio. Drilling operations at the Maria development commenced in Q1 2017, with first oil achieved in December, a year ahead of schedule and with total project costs around 20% lower than the business case. Further infill wells were drilled at Statfjord and Kvitebjørn in Norway and Chestnut in the UK. Overall, 2017 capital expenditure was down 15% to £439m, which reflects the impact of reduced spend on Cygnus.

In 2018, we currently expect Spirit Energy to deliver production in the range 50-55mboe while progressing several key projects. Fabrication contracts have been awarded and drilling commenced on the Oda project, which remains on target to produce first oil in 2019, while appraisal drilling will commence at the Fogelberg discovery. We also expect that a Field Development Plan for the Nova development, previously named Skarfjell, will be finalised during 2018.

Reflecting the net impact of the Spirit Energy transaction, and reserve additions on a number of fields including Chiswick and Maria not fully offsetting production during the year, Centrica's net share of 2P reserves in Europe, excluding reserves at Rough, fell by 59mboe to 251mboe at the end of 2017.

European total lifting and other cash production costs increased by 9% compared to 2016, with the decline in sterling and the impact of Cygnus coming on-stream more than offsetting cost efficiency benefits. Combined with lower production volumes, this resulted in European unit lifting and other cash production costs increasing by 16%. For the period in which the assets in Canada and Trinidad and Tobago were owned, Americas unit lifting and other cash production costs were 47% higher, principally reflecting the impact of the decline in sterling, higher royalty and pipeline tariffs and the non-repeat of some one-off savings in 2016.

Adjusted operating profit of £184m was broadly flat compared to 2016, with higher achieved prices offsetting the impact of lower production, higher cash costs, and higher depreciation including that associated with Cygnus production. Adjusted operating cash flow fell 32% to £448m despite the flat operating profit, reflecting higher decommissioning spend and higher cash taxes due to the phasing of Norwegian payments between years. The business was again free cash flow positive in 2017, generating £298m when excluding £78m of cash acquired through the Spirit Energy transaction. This includes £289m of disposal proceeds, with adjusted operating cash flow broadly offsetting capital expenditure during the year. We also recognised pre-tax exceptional impairments of £494m (post-tax £162m) on certain fields, predominantly due to reduction in price forecasts and changes to expected decommissioning costs following the conclusion of the triennial review, partially offset by the recognition of a PRT deferred tax asset reversing a prior period impairment. In addition, there has been a pre-tax reduction in decommissioning provisions of £86m (post-tax £51m) for assets previously impaired through exceptional items.

Business Review continued

CENTRICA STORAGE

Year ended 31 December	2017	2016	Change
Total recordable injury frequency rate (per 200,000 hours worked)	0.55	1.72	(68%)
Process safety incident rate – tier 1 & 2 (per 200,000 hours worked)	0.39	0.68	(43%)
Total production volumes (mmbœ)	4.2	1.6	163%
Gross revenue (£m)			
SBU	5	43	(88%)
Gas production	128	29	341%
Other	15	21	(29%)
Total gross revenue (£m)	148	93	59%
Adjusted operating profit / (loss) (£m)	17	(52)	nm
Adjusted operating cash flow (£m)	61	(49)	nm

In June, Centrica Storage (CSL) announced it had completed and analysed the results of the extensive well testing programme at the Rough gas storage asset, which had commenced in 2015 following the identification of an issue with the integrity of the wells. CSL also announced that it had completed a review into the feasibility of returning Rough to injection and storage operations. It concluded that due to the high operating pressures involved, and the fact that the wells and facilities are at the end of their design life and had suffered a number of different failure modes while testing, it could not safely return the assets and facilities to injection and storage operations. In addition, an assessment of both the current economics of seasonal storage and the costs involved suggested that it would not be economic to continue to operate Rough as a gas storage asset by refurbishing or rebuilding the facility and replacing the wells.

As a result, CSL made all relevant applications to permanently end Rough's status as a storage facility and to produce all recoverable gas reserves. In December, the Competition and Markets Authority (CMA) announced its final decision to grant CSL's request to be released from the Rough Undertakings, while in January 2018 the Oil and Gas Authority (OGA) granted its consent for CSL to produce indigenous gas and associated liquids from Rough. Separate to this application, in June, CSL also applied to the OGA to produce up to an initial 30.7bcf of gas in order to reduce pressure on the wells to ensure that risks associated with operating the reservoir are as low as reasonably practical. Consent was granted in September, and 25bcf of gas was sold in 2017, with production continuing into 2018. CSL will now operate Rough as a gas production asset to maximise recovery of the estimated 142bcf of reserves remaining in the field as at the end of 2017. Production in 2018 is currently forecast to be 56bcf.

Centrica Storage gross revenue increased by 59% to £148m, reflecting 2017 production volumes from the Rough asset being materially higher than the 9bcf of cushion gas sold in 2016. This was partially offset by minimal SBU revenue due to the reduced available capacity of the reservoir for the 2016/17 storage year as a result of the well integrity issues and no SBUs being sold for the 2017/18 storage year. With total costs down 9% due to lower fuel gas usage reflecting the reduced operations at Rough and reduced operating costs to reflect the changing status of the asset, Centrica Storage recognised an adjusted operating profit of £17m in 2017 compared to a loss of £52m in 2016. Adjusted operating cash flow was £61m, which included working capital inflows resulting from the sale of operational stock, compared to a build-up of stock in 2016, and costs associated with decommissioning the 8A platform, which will continue into 2018.

A pre-tax exceptional charge of £270m (post-tax £224m) was recorded in H1 2017, following the June 2017 announcement to apply for a production licence and permanently end Rough's status as a storage facility. From 2018, we expect to report both Spirit Energy and Centrica Storage in one E&P reporting segment.

Group Financial Review

GROUP REVENUE

Group revenue increased by £0.9bn, or 3%, to £28.0bn (2016: £27.1bn). Gross revenue in Centrica Consumer fell by £0.6bn, or 5%, largely reflecting the impact of lower average customer account holdings and lower consumption due to warmer weather over the year. Gross revenue in Centrica Business increased by £1.7bn, or 13%, reflecting the full year impact of the Neas Energy acquisition which completed at the start of Q4 2016 and the impact of foreign exchange movements on North America Business revenue. Revenue from the asset businesses, E&P and CSL, was broadly flat overall.

OPERATING PROFIT

Throughout the Preliminary Results statement, reference is made to a number of different profit measures, as shown below:

Year ended 31 December	Notes	2017			2016		
		Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit / (loss)							
UK Home		819			810		
Ireland		47			46		
North America Home		119			93		
Connected Home		(95)			(50)		
Centrica Consumer		890			899		
UK Business		4			50		
North America Business		71			221		
Distributed Energy & Power (DE&P)		(53)			(26)		
Energy Marketing & Trading (EM&T)		104			161		
Central Power Generation (CPG)		35			75		
Centrica Business		161			481		
Exploration & Production (E&P)		184			187		
Centrica Storage (CSL)		17			(52)		
Total adjusted operating profit	5(c)	1,252			1,515		
Interest and taxation on joint ventures and associates	5(c)	(7)			(48)		
Group operating profit / (loss)	5(c)	1,245	(759)	486	1,467	1,019	2,486
Net finance cost	7	(344)	-	(344)	(300)	-	(300)
Taxation	8	(191)	352	161	(282)	(242)	(524)
Profit / (loss) for the period		710	(407)	303	885	777	1,662
Less (profit) / loss attributable to non-controlling interests		(12)			10		
Adjusted earnings		698			895		

Total adjusted operating profit reduced 17% to £1,252m (2016: £1,515m). Centrica Consumer profit fell 1% with the impact of warmer weather on consumption and lower account holdings in UK Home and North America Home, and an increased operating loss due to growth investment in Connected Home, largely offset by cost efficiencies. Centrica Business profit fell by 67%, largely reflecting the impact of warmer weather and competitive market conditions in our energy supply businesses in UK Business and North America Business, a one-off non-cash charge relating to a reassessment of the historic recognition of unbilled power revenues in North America and lower profit from flexible gas contracts in EM&T. Profit from E&P was broadly flat, with higher achieved prices offsetting lower volumes, while CSL reported an operating profit of £17m compared to a loss of £52m in 2016, reflecting higher gas production volumes with Rough having received permission to produce up to 30.7bcf of cushion gas to reduce pressure in the field for safety reasons.

GROUP FINANCE CHARGE AND TAX

Net finance costs increased to £344m (2016: £300m), predominantly reflecting a lower capitalised interest credit.

Business performance taxation on profit was lower at £191m (2016: £282m) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £197m (2016: £298m). An adjusted effective tax rate calculation is shown below:

Group Financial Review continued

Year ended 31 December	2017						2016		
	UK £m	Non-UK £m	Spirit Energy UK £m	Spirit Energy Non-UK £m	Spirit Energy Total £m	Group Total £m	UK £m	Non-UK £m	Total £m
Adjusted operating profit	798	278	(103)	279	176	1,252	932	583	1,515
Share of JV/associate interest	(1)	-	-	-	-	(1)	(32)	-	(32)
Net finance cost	(197)	(90)	(37)	(20)	(57)	(344)	(235)	(65)	(300)
Adjusted profit before taxation	600	188	(140)	259	119	907	665	518	1,183
Taxation on profit	62	6	(111)	234	123	191	31	251	282
Share of JV/associate taxation	6	-	-	-	-	6	16	-	16
Adjusted tax charge	68	6	(111)	234	123	197	47	251	298
Adjusted effective tax rate	11%	3%	79%	90%	103%	22%	7%	48%	25%

A breakdown of factors that have affected the adjusted effective tax rate in 2017 is shown in the table below:

Year ended 31 December 2017	UK		Non-UK		Spirit Energy UK		Spirit Energy non-UK		Spirit Energy Total		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Tax at relevant statutory rate	116	19%	66	35%	(56)	40%	202	78%	146	123%	328	36%
Adjusting items ¹	21	-	(7)	-	3	-	21	-	24	-	38	-
Underlying adjusted effective tax charge / rate	137	23%	59	31%	(53)	38%	223	86%	170	143%	366	40%
Rate changes	-	-	(34)	-	-	-	-	-	-	-	(34)	-
Provision release and other	(69)	-	(19)	-	(58)	-	11	-	(47)	-	(135)	-
Adjusted effective tax charge / rate	68	11%	6	3%	(111)	79%	234	90%	123	103%	197	22%

1. Adjusting items includes non-qualifying depreciation and amortisation, upstream incentives, abandonment relief and any variance to statutory rates.

The Group adjusted effective tax rate reduced to 22% (2016: 25%) reflecting the mix of profits between different activities and jurisdictions and the impact of a net uncertain tax provision release of £34m, a net petroleum revenue tax refund of £34m and a tax credit of £34m resulting from the restatement of deferred tax balances following the reduction in the US federal tax rate from 35% to 21%. Adjusting for these impacts and other similar, but individually immaterial items, the Group's underlying adjusted effective tax rate was 40%.

For the European E&P activities, now included within Spirit Energy, profits were made in Norway but losses were incurred in the UK, where tax relief is given at a lower effective rate than the rate applied in Norway. As a result, the Spirit Energy underlying adjusted effective tax rate was 143%.

The future underlying effective tax rate for Spirit Energy will be dependent on the mix of profits, while the underlying adjusted effective tax rate for UK operations is expected to reduce in future years as the UK corporation tax rate reduces to 17% from 2020. The underlying adjusted effective tax rate for US operations reported within non-UK is also expected to reduce reflecting the reduction in the US federal tax rate to 21%.

GROUP EARNINGS AND DIVIDEND

Profit for the year from business performance decreased to £710m (2016: £885m) and after adjusting for non-controlling interests, adjusted earnings fell by 22% to £698m (2016: £895m). This reflects the lower adjusted operating profit and higher net finance cost, partly offset by the lower tax charge, all as described above. Adjusted basic EPS was 12.6p (2016: 16.8p) reflecting the lower earnings and a higher number of shares in issue due to the effects of a 7% equity placing in May 2016 and the scrip dividend.

The statutory profit attributable to shareholders for the year was £333m (2016: £1,672m). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2016 is principally due to a post-tax exceptional charge of £476m (2016: credit of £27m) and a lower net gain from certain re-measurements of £69m (2016: £750m). The Group reported a statutory basic EPS of 6.0p (2016: 31.4p).

In addition to the interim dividend of 3.6p per share, the proposed final dividend is 8.4p, giving a total full year dividend of 12.0p (2016: 12.0p).

Group Financial Review continued

GROUP CASH FLOW, NET DEBT AND BALANCE SHEET

Net cash flow from operating activities decreased to £1,840m (2016: £2,396m), which predominantly reflects lower EBITDA and net working capital inflows. Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table below, was down 23% to £2,069m.

Year ended 31 December	2017 £m	2016 £m
Net cash flow from operating activities	1,840	2,396
Add back/(deduct):		
Net margin and cash collateral inflow ¹	(136)	(177)
Payments relating to exceptional charges	176	273
Dividends received from joint ventures and associates	58	117
Defined benefit deficit pension payment	131	77
Adjusted operating cash flow	2,069	2,686

¹ Net margin and cash collateral inflow includes the reversal of collateral amounts posted when the related derivative contract settles.

Net cash inflow from investing activities was £32m (2016: outflow of £803m). The change compared to 2016 is predominantly due to proceeds from net disposals in 2017 of £819m, mainly relating to the Lincs wind farm, UK gas-fired power stations and Canadian E&P assets. The 2016 comparator included the acquisitions of ENER-G Cogen and Neas Energy and lower disposal proceeds.

Net cash outflow from financing activities was £1,070m (2016: £546m). This predominantly reflects 2016 including an inflow from the issuance of ordinary share capital following the £700m equity placing. Equity dividends paid were lower in 2017, reflecting a higher scrip take up of the 2016 final dividend payment, financing interest was higher and repayment of borrowings were lower reflecting a lower level of debt maturing in 2017 compared to 2016.

Reflecting all of the above, the Group's net debt as at 31 December 2017 fell to £2,596m (31 December 2016: £3,473m), which includes cash collateral posted or received in support of wholesale energy procurement.

Net assets increased by £584m to £3,428m (31 December 2016: £2,844m). Total assets decreased by £1,226m, with lower non-current assets predominantly reflecting the pre-tax impact of impairments and disposals. Total liabilities decreased by £1,810m, including the impact of lower decommissioning provisions resulting from the E&P disposals, lower derivative financial instrument balances, and a reduction in the net pension liability from £1,137m at the end of 2016 to £886m at the end of 2017. Further details on pensions can be found in note 14.

2017 ACQUISITIONS AND DISPOSALS

In line with its strategy to reduce its scale in E&P and Central Power Generation, in February the Group completed the disposal of the Lincs Wind Farm for £214m and in May completed the disposal of its remaining Trinidad & Tobago gas assets for £26m. In August, the Group completed the disposal of its UK gas-fired power stations at Langage, Humber Bank and Kings Lynn B, for £314m and in September, the Group completed the disposal of its 60% interest in its portfolio of Canadian E&P assets for £255m.

In November, the Group acquired Europe's leading demand response aggregator, REstore, for £62m. The business brings key capabilities in asset optimisation and demand response aggregation is expected to become a core part of our distributed energy offer to customers. The business will form part of the DE&P business unit.

In December, Spirit Energy was formed, combining the Group's remaining European E&P business with that of Bayerngas Norge AS. The Group owns 69% of the business.

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

EXCEPTIONAL ITEMS

A net exceptional pre-tax charge of £884m was recognised in 2017 (2016: £11m).

The Group recognised net impairments of £408m on E&P assets. It recognised £494m of impairments predominantly due to a reduction in price forecasts and changes to decommissioning costs following the conclusion of the triennial review. It also recognised a £86m write-back of decommissioning provisions for assets previously impaired.

Following the announcement in June 2017 that the Rough facility could not be safely returned to injection and storage operations and CSL would instead apply for a production licence for the remaining cushion gas, a pre-tax impairment charge of £270m was recorded in the half year results.

The Group recognised a £64m gain on disposal of the Lincs wind farm joint venture and a net gain of £8m relating to the disposal of its CCGT power stations.

Group Financial Review continued

The Group recognised a £9m loss on disposal of its remaining portfolio of gas assets in Trinidad and Tobago and a total net charge of £125m relating to the disposal of its Canadian E&P assets.

As a result of the Group's strategic review announced in 2015, the Group incurred a further £144m of restructuring and business change costs in 2017 in implementing the new organisational model relating principally to redundancy costs, impairment of assets on closure of businesses, transformation spend and consultancy costs, as well as costs associated with setting up the Spirit Energy business and changing the operating model for Centrica Storage.

These charges generated a taxation credit of £408m (2016: £38m). Total net exceptional charges after taxation were £476m (2016: credit of £27m).

Further details can be found in note 6.

CERTAIN RE-MEASUREMENTS

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IAS 39. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax gain of £125m (2016: £1,030m) relating to these re-measurements, or £69m after tax (2016: £750m). The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements. See note 6 for further details.

EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2018, Centrica Storage was granted consent from the Oil and Gas Authority to produce indigenous gas and associated liquids from Rough, confirming transition from a storage operation to one of production on 17 January 2018.

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

RISKS AND CAPITAL MANAGEMENT

The nature of the Group's principal risks and uncertainties are largely unchanged from those set out in its 2016 Annual Report, although there is now a heightened risk of political and regulatory intervention in the UK. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 4. Details on the Group's capital management processes are provided under sources of finance in note 11(a).

ACCOUNTING POLICIES

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Financial Statements in accordance with applicable law, regulations and accounting standards. In preparing the Group Financial Statements, the Directors are required to:

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

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

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

On behalf of the Board on 21 February 2018

Iain Conn
Group Chief Executive

Jeff Bell
Group Chief Financial Officer

Group Income Statement

Year ended 31 December	Notes	2017			2016		
		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
Group revenue	5(b)	28,023	–	28,023	27,102	–	27,102
Cost of sales before exceptional items and certain re-measurements		(23,981)	–	(23,981)	(22,711)	–	(22,711)
Re-measurement of certain energy contracts	6	–	153	153	–	1,058	1,058
Cost of sales		(23,981)	153	(23,828)	(22,711)	1,058	(21,653)
Gross profit		4,042	153	4,195	4,391	1,058	5,449
Operating costs before exceptional items		(2,848)	–	(2,848)	(3,054)	–	(3,054)
Exceptional items – net impairment of retained assets	6	–	(678)	(678)	–	(71)	(71)
Exceptional items – net (loss)/gain on disposal ⁽ⁱ⁾	6	–	(62)	(62)	–	157	157
Exceptional items – restructuring and business change costs	6	–	(144)	(144)	–	(228)	(228)
Exceptional items – other	6	–	–	–	–	131	131
Operating costs		(2,848)	(884)	(3,732)	(3,054)	(11)	(3,065)
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	12(a)	51	(28)	23	130	(28)	102
Group operating profit/(loss)	5(c)	1,245	(759)	486	1,467	1,019	2,486
Financing costs	7	(364)	–	(364)	(337)	–	(337)
Investment income	7	20	–	20	37	–	37
Net finance cost		(344)	–	(344)	(300)	–	(300)
Profit/(loss) before taxation		901	(759)	142	1,167	1,019	2,186
Taxation on profit/(loss)	6, 8	(191)	352	161	(282)	(242)	(524)
Profit/(loss) for the year		710	(407)	303	885	777	1,662
Attributable to:							
Owners of the parent		698	(365)	333	895	777	1,672
Non-controlling interests		12	(42)	(30)	(10)	–	(10)
Earnings per ordinary share				Pence			Pence
Basic	10			6.0			31.4
Diluted	10			6.0			31.2
Interim dividend paid per ordinary share	9			3.60			3.60
Final dividend proposed per ordinary share	9			8.40			8.40

(i) Gains and losses on disposal include any impairments and write-backs associated with the assets disposed of upon classification as held for sale.

The notes on pages 35 to 73 form part of these Financial Statements.

Group Statement of Comprehensive Income

Year ended 31 December	2017 £m	2016 (restated) (i) £m
Profit for the year	303	1,662
Other comprehensive income/(loss):		
Items that will be or have been reclassified to the Group Income Statement:		
Gains on revaluation of available-for-sale securities, net of taxation	5	8
Transfer of available-for-sale reserve gains to Group Income Statement	–	(5)
Net gains on cash flow hedges	24	161
Transferred to income and expense on cash flow hedges (ii)	(34)	(129)
Transferred to assets and liabilities on cash flow hedges	(7)	(4)
Cash flow hedging reserve recycled to Group Income Statement on disposal	10	5
Taxation on cash flow hedges	1	(3)
	(6)	30
Exchange differences on translation of foreign operations (iii)	(128)	549
Exchange gains/(losses) on translation of actuarial reserve	1	(7)
Exchange differences recycled to Group Income Statement on disposal	8	–
Share of other comprehensive loss of joint ventures and associates, net of taxation	–	(9)
	(120)	566
Items that will not be reclassified to the Group Income Statement:		
Net actuarial gains/(losses) on defined benefit pension schemes	222	(1,174)
Taxation on net actuarial gains/(losses) on defined benefit pension schemes	(38)	194
	184	(980)
Share of other comprehensive income of joint ventures and associates, net of taxation	43	65
Other comprehensive income/(loss), net of taxation	107	(349)
Total comprehensive income for the year	410	1,313
Attributable to:		
Owners of the parent	437	1,287
Non-controlling interests	(27)	26

(i) Prior year comparatives have been re-presented to show exchange differences on translation of actuarial reserve as an item that will be reclassified to the Group Income Statement, and cash flow hedging reserve recycled to Group Income Statement on disposal separately from share of other comprehensive loss of joint ventures and associates.

(ii) Cash flow hedging gains have been transferred to the following lines of the Group Income Statement: financing costs of £29 million (2016: £124 million), operating costs before exceptional items £5 million (2016: nil) and cost of sales before exceptional items and certain re-measurements nil (2016: £5 million).

(iii) Includes £3 million gain (2016: £36 million gain) of exchange differences on translation of foreign operations attributable to non-controlling interests.

Group Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Other equity £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2016	317	1,135	482	(756)	1,178	164	1,342
Profit/(loss) for the year	–	–	1,672	–	1,672	(10)	1,662
Other comprehensive (loss)/income	–	–	–	(385)	(385)	36	(349)
Employee share schemes	–	–	1	32	33	–	33
Scrip dividend	4	121	–	–	125	–	125
Dividends paid to equity holders (note 9)	–	–	(651)	–	(651)	–	(651)
Distributions to non-controlling interests	–	–	–	–	–	(12)	(12)
Issue of share capital	21	673	–	–	694	–	694
31 December 2016	342	1,929	1,504	(1,109)	2,666	178	2,844
Profit/(loss) for the year	–	–	333	–	333	(30)	303
Other comprehensive income	–	–	–	104	104	3	107
Employee share schemes	–	–	4	31	35	–	35
Scrip dividend	6	192	–	–	198	–	198
Dividends paid to equity holders (note 9)	–	–	(661)	–	(661)	–	(661)
Distributions to non-controlling interests	–	–	–	–	–	(3)	(3)
Acquisition of business (note 15)	–	–	–	24	24	721	745
Disposal of business (note 15)	–	–	–	–	–	(152)	(152)
Investment by non-controlling interests	–	–	–	–	–	12	12
31 December 2017	348	2,121	1,180	(950)	2,699	729	3,428

The notes on pages 35 to 73 form part of these Financial Statements.

Group Balance Sheet

	Notes	31 December 2017 £m	31 December 2016 £m
Non-current assets			
Property, plant and equipment		4,132	5,298
Interests in joint ventures and associates	12(d)	1,699	1,697
Other intangible assets		1,676	1,769
Goodwill		2,650	2,614
Deferred tax assets		568	356
Trade and other receivables		87	66
Derivative financial instruments	13	463	582
Securities	11(b)	231	219
		11,506	12,601
Current assets			
Trade and other receivables		4,668	5,102
Inventories		409	372
Derivative financial instruments	13	927	1,291
Current tax assets		289	241
Securities	11(b)	5	13
Cash and cash equivalents	11(b)	2,864	2,036
		9,162	9,055
Assets of disposal groups classified as held for sale	15(c)	–	238
		9,162	9,293
Total assets		20,668	21,894
Current liabilities			
Derivative financial instruments	13	(733)	(1,100)
Trade and other payables		(5,412)	(5,525)
Current tax liabilities		(336)	(355)
Provisions for other liabilities and charges		(264)	(457)
Bank overdrafts, loans and other borrowings	11(c)	(707)	(398)
		(7,452)	(7,835)
Liabilities of disposal groups classified as held for sale	15(c)	–	(42)
		(7,452)	(7,877)
Non-current liabilities			
Deferred tax liabilities		(173)	(245)
Derivative financial instruments	13	(287)	(493)
Trade and other payables		(167)	(69)
Provisions for other liabilities and charges		(2,684)	(3,099)
Retirement benefit obligations	14(d)	(886)	(1,137)
Bank loans and other borrowings	11(c)	(5,591)	(6,130)
		(9,788)	(11,173)
Total liabilities		(17,240)	(19,050)
Net assets		3,428	2,844
Share capital		348	342
Share premium		2,121	1,929
Retained earnings		1,180	1,504
Other equity		(950)	(1,109)
Total shareholders' equity		2,699	2,666
Non-controlling interests		729	178
Total shareholders' equity and non-controlling interests		3,428	2,844

The Financial Statements on pages 31 to 73, of which the notes on pages 35 to 73 form part, were approved and authorised for issue by the Board of Directors on 21 February 2018 and were signed below on its behalf by:

Iain Conn **Jeff Bell**
Group Chief Executive **Group Chief Financial Officer**

Group Cash Flow Statement

Year ended 31 December	Notes	2017 £m	2016 £m
Group operating profit including share of results of joint ventures and associates		486	2,486
Less share of profits of joint ventures and associates, net of interest and taxation	12(a)	(23)	(102)
Group operating profit before share of results of joint ventures and associates		463	2,384
Add back/(deduct):			
Depreciation, amortisation, write-downs, impairments and write-backs		1,794	1,068
Profit on disposals		(41)	(126)
Decrease in provisions		(227)	(32)
Defined benefit pension service cost and contributions		(104)	(179)
Employee share scheme costs		47	46
Unrealised gains arising from re-measurement of energy contracts		(45)	(737)
Operating cash flows before movements in working capital		1,887	2,424
(Increase)/decrease in inventories		(56)	90
Decrease in trade and other receivables		258	221
Increase in trade and other payables		29	140
Operating cash flows before payments relating to taxes and exceptional charges		2,118	2,875
Taxes paid		(102)	(206)
Payments relating to exceptional charges		(176)	(273)
Net cash flow from operating activities		1,840	2,396
Purchase of businesses, net of cash acquired		17	(335)
Sale of businesses		593	35
Purchase of property, plant and equipment and intangible assets	5(e)	(882)	(829)
Sale of property, plant and equipment and intangible assets		14	13
Investments in joint ventures and associates		(6)	(17)
Dividends received from joint ventures and associates	12(c)	58	117
Disposal of interests in joint ventures and associates		218	94
Interest received		22	91
(Purchase)/sale of securities	11(b)	(2)	28
Net cash flow from investing activities		32	(803)
Issue of ordinary share capital		-	694
Payments for own shares		(11)	(17)
Distribution to non-controlling interests		(7)	(10)
Financing interest paid		(318)	(204)
Repayment of borrowings and finance leases	11(b)	(271)	(477)
Equity dividends paid		(463)	(532)
Net cash flow from financing activities		(1,070)	(546)
Net increase in cash and cash equivalents		802	1,047
Cash and cash equivalents including overdrafts at 1 January		1,960	860
Effect of foreign exchange rate changes		(25)	53
Cash and cash equivalents including overdrafts at 31 December		2,737	1,960
Included in the following line of the Group Balance Sheet:			
Cash and cash equivalents	11(b)	2,864	2,036
Overdrafts included within current bank overdrafts, loans and other borrowings	11(b)	(127)	(76)

The notes on pages 35 to 73 form part of these Financial Statements.

Notes to the Financial Statements

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

This section details new accounting standards, amendments to standards and interpretations, whether these are effective in 2017 or later years, and if and how these are expected to impact the financial position and performance of the Group.

(a) General information

Centrica plc (the 'Company') is a public company limited by shares, domiciled and incorporated in the UK, and registered in England and Wales. The address of the registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. The Company, together with its subsidiaries comprise the 'Group'. The Company has its listing on the London Stock Exchange.

The Financial Statements for the year ended 31 December 2017 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 21 February 2018.

The preliminary results for the year ended 31 December 2017 have been extracted from audited accounts (with the exception of notes 19 to 23 which have not been audited) which have not yet been delivered to the Registrar of Companies. The Financial Statements set out in this announcement do not constitute statutory accounts for the year ended 31 December 2017 or 31 December 2016. The financial information for the year ended 31 December 2016 is derived from the statutory accounts from that year. The report of the auditors on the statutory accounts for the year ended 31 December 2017 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

(b) Basis of preparation

The accounting policies applied in these condensed Financial Statements for the year ended 31 December 2017 are consistent with those of the annual Financial Statements for the year ended 31 December 2016, as described in those Financial Statements, with the exception of standards, amendments and interpretations effective in 2017 and other presentational changes.

(c) Standards, amendments and interpretations effective or adopted in 2017

From 1 January 2017, the following standards and amendments are effective in the consolidated Financial Statements. Their first time adoption did not have a material impact on the consolidated Financial Statements.

- Amendments to IAS 7: 'Statement of cash flows' related to the disclosure initiative; and
- Amendments to IAS 12: 'Income taxes' related to the recognition of deferred tax assets for unrealised losses.

Annual Improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 12: 'Disclosure of interests in other entities' was endorsed by the EU in February 2018. As the Group did not have any assets and liabilities of disposal groups classified as held for sale as at 31 December 2017 this would not have affected the consolidated Financial Statements.

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

Endorsed by the EU

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

- IFRS 9: 'Financial instruments';
- IFRS 15: 'Revenue from contracts with customers';
- Amendments to IFRS 15: 'Effective date of IFRS 15';
- Clarifications to IFRS 15: 'Revenue from contracts with customers';
- IFRS 16: 'Leases', effective from 1 January 2019; and
- Annual Improvements to IFRS Standards 2014-2016 Cycle: Amendments to IFRS 1: 'First-time adoption of International Financial Reporting Standards' and IAS 28: 'Investments in associates and joint ventures'.

Management has established and progressed separate projects to oversee the implementation of IFRS 9 and IFRS 15 and further details are provided below.

IFRS 9

The Group will apply IFRS 9 from 1 January 2018. The implementation of IFRS 9 has been split into three parts, representing the areas of change from the new financial instrument standard. The Group's assessment of the potential impact is at the date of initial application of IFRS 9 (1 January 2018). The full impact of adopting IFRS 9 on the Group's consolidated Financial Statements will depend on the financial instruments the Group has during 2018, as well as on the economic conditions and judgements made as at the 2018 year end.

Classification and measurement

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured, namely, the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 identifies three categories of financial assets: amortised cost; fair value through other comprehensive income (FVOCI) and; fair value through profit or loss (FVTPL). The Group's business units have reviewed their financial instruments under the revised IFRS 9 classification and measurement rules. The classification of debt financial instruments, predominantly held by Treasury, that are currently classified as available-for-sale and measured at FVOCI will be FVTPL under IFRS 9. The change in fair value that was recorded in Other Comprehensive Income in 2017 in respect of these instruments was £4 million and therefore the impact of this change on the Income Statement is not expected to be material. The Group's remaining available-for-sale assets are equity instruments and on adoption of IFRS 9 the Group intends to elect to measure these at FVOCI. The Group's other financial instruments (both financial assets and financial liabilities) are not expected to result in material adjustments on classification and measurement under IFRS 9.

Notes to the Financial Statements (continued)

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

Impairment

IFRS 9 operates an expected credit loss model rather than an incurred credit loss model. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amounts of expected credit losses should be updated at each reporting date. The new impairment model will apply to the Group's financial assets that are debt instruments measured at amortised cost or FVOCI.

No material changes to the impairment provisions recorded currently are expected on transition to IFRS 9. The majority of trade receivables reside in the Group's energy supply and services business and these businesses already operate a sophisticated provision matrix approach based on historic data to establish impairment provisions. Adjustments to encompass forward-looking estimates into this approach are not expected to be material. The impairment of financial assets, subject to the IFRS 9 impairment rules, in the other parts of the business are also not expected to change materially.

Hedge accounting

The Group has elected to continue to apply the hedge accounting requirements of IAS 39: 'Financial instruments: recognition and measurement' instead of the requirements of IFRS 9 as permitted by IFRS 9. Hence there will be no changes to the current hedge accounting relationships.

The Group intends to apply the limited exemption in IFRS 9 relating to transition for classification and measurement and impairment and not restate its comparatives and instead adjust opening equity, where applicable, on 1 January 2018 for the impact of adopting IFRS 9, with this adjustment currently being finalised.

IFRS 15

An extensive review of the Group's contractual arrangements that comprise the Group's current revenue streams has been performed. The conclusion of these reviews is that the adoption of IFRS 15, which is effective from 1 January 2018, will not have a material impact on the recognition of revenue compared to current accounting standards. This is for the following reasons:

- a significant amount of the Group's revenue is outside the scope of IFRS 15. For example, a portion of our UK Home services revenue is from fixed fee service contracts, which are currently within the scope of IFRS 4: 'Insurance contracts' and the sale of much of the Group's asset production (for example, the majority of our Exploration & Production gas production, Central Power Generation gas fired power station production and sales of power received from the Group's associate investment in Nuclear) is sold in the market via the Group's Energy Marketing & Trading segment through contracts that are in the scope of IFRS 9;
- for the majority of energy supply contracts, because there are no minimum quantities whereby the Group delivers the amount of energy required by customers on demand, it has been concluded that there is only an enforceable right to bill for consumption once the customer consumes energy. Revenue recognition for these energy supply contracts (which is a significant portion of the Group's revenue) will therefore not differ from our current revenue recognition policies; and
- currently the bundling of products and services is not significant for the Group. However, expanding the sale of bundled products and services is a key focus for the Group and could therefore have a more significant impact on the Group's revenue recognition in the future. The accounting implications and system requirements will be addressed as propositions are developed in the Group's customer facing businesses.

There have been some differences identified in less significant revenue streams, notably the gross up of revenue and costs of sales for demand side response revenue in Distributed Energy & Power in North America where it has been concluded that the business is acting as principal under IFRS 15. Additionally, North America Home will defer the recognition of some of its revenue in its franchise business and capitalise additional costs to obtain contracts on adoption of IFRS 15. However, the impact of all of these adjustments on opening equity and the Group's revenue in 2017 is not material. The full impact of adopting IFRS 15 on the Group's consolidated Financial Statements for 2018 will also depend on the contractual arrangements entered into by the Group during 2018.

The Group intends to apply this standard fully retrospectively and therefore the 2017 comparatives will be restated in the 2018 consolidated Financial Statements, with these adjustments currently being finalised.

Other standards and amendments

IFRS 16: 'Leases' was issued in January 2016 and will have a significant impact on the Group's consolidated Financial Statements as all leases will be recognised on the balance sheet (with the exception of short-term and low value leases). A steering committee has met several times during the year to discuss the approach to the implementation of the standard. During the year, an impact analysis on the Group's results has been performed using a sample of representative leases to enable the impact of the different transition options to be understood. The feasibility of adopting a full retrospective transition approach is being investigated whilst the data capture solution is developed in early 2018. The implementation and data capture work will continue into 2018 and an appropriate systems solution will be selected. Due to the number of leases held by the Group it has not been practicable to quantify the full effect it will have on the Group's consolidated Financial Statements, although the operating lease commitment data in note 16(a) gives an indication of the scale of lease commitments that would be recognised on the balance sheet on transition.

Management does not currently expect the future application of the Annual Improvements to IFRS Standards 2014-2016 Cycle to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

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

Not endorsed by the EU

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

- IFRS 17: 'Insurance contracts', effective from 1 January 2021;
- IFRIC Interpretation 22: 'Foreign currency transactions and advance consideration', effective from 1 January 2018;
- IFRIC Interpretation 23: 'Uncertainty over income tax treatments', effective from 1 January 2019;
- Amendments to IFRS 2: 'Classification and measurement of share-based payment transactions', effective from 1 January 2018;
- Amendments to IFRS 9: 'Prepayment features with negative compensation', effective from 1 January 2019;
- Amendments to IAS 19: 'Plan amendment, curtailment or settlement' effective from 1 January 2019;
- Amendments to IAS 28: 'Long-term interests in associates and joint ventures', effective from 1 January 2019;
- Amendments to IAS 40: 'Transfers of investment property', effective from 1 January 2018; and
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3: 'Business combinations', IFRS 11: 'Joint arrangements', IAS 12: 'Income taxes' and IAS 23: 'Borrowing costs', effective from 1 January 2019.

IFRS 17: 'Insurance contracts' was issued in May 2017. This new standard will not be effective before 1 January 2021, assuming it is endorsed by the EU. The Group currently has fixed-fee service contracts that it accounts for as insurance contracts under IFRS 4: 'Insurance contracts'. Under IFRS 17, subject to certain conditions, there is an accounting policy choice to account for these contracts under IFRS 17 or IFRS 15. As this could change the accounting for these contracts, this will be considered during the implementation of IFRS 17.

Management does not currently expect the future application of the IFRIC interpretations and amendments to have a material impact on the amounts reported and disclosed in the consolidated Financial Statements.

The amendments to IAS 19 apply to plan amendments, curtailments or settlements that occur on or after 1 January 2019, and the amendments to IFRS 3 and IFRS 11 apply to acquisitions of additional interests in joint arrangements for which the acquisition date is on or after 1 January 2019. As these types of transactions can vary in size and are non-recurring in nature, the Group cannot quantify the effect that these amendments could potentially have in the future.

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

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

(a) Use of adjusted performance measures

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

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

- exceptional items; and
- certain re-measurements;

but including:

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

Exceptional items and certain re-measurements are excluded because these items are considered by the Directors to distort the Group's underlying business performance. See note 2(b) for further details. The Group's share of results from joint ventures and associates is presented before interest and taxation because this gives a consistent measurement of results compared to wholly owned subsidiaries.

Note 5 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Note 5 also contains an analysis of adjusted operating profit after taxation by segment and a reconciliation to the statutory results for the year. Adjusted operating profit after taxation is defined as adjusted operating profit, net of associated taxation, before:

- the impact of changes to UK and US corporation tax rates; and
- certain Corporate and other taxation.

Given the significant variance in tax rates for different jurisdictions and different businesses within the Group, this measure provides management with an analysis of each segment's contribution to overall earnings. The impact of changes to UK and US corporation tax rates is excluded because it predominantly relates to future tax impacts rather than the current year performance. The measure excludes interest and related tax impacts because this measure provides an analysis of the segment's operating performance and its contribution to earnings before the impact of the financing of the segment.

Notes to the Financial Statements (continued)

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

Adjusted earnings is defined as earnings before:

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

A reconciliation of adjusted earnings and adjusted earnings per share is provided in note 10.

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is defined as net cash flow from operating activities before:

- payments relating to exceptional items;
- deficit reduction payments made to the UK defined benefit pension schemes; and
- movements in variation margin and cash collateral that are included in net debt;

but including:

- dividends received from joint ventures and associates.

Payments related to exceptional items are excluded because the Directors do not consider these to represent underlying business performance. Deficit reduction payments and movements in variation margin and cash collateral are excluded because the Directors do not consider these to represent the operating cash flows generated by underlying business performance, as they are predominantly triggered by wider market factors and, in the case of variation margin and cash collateral, these represent timing differences. Dividends received from joint ventures and associates are considered by the Directors to represent operating cash flows generated by the Group's operations that are structured in this manner.

(b) Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide users 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 its 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' and so IAS 39: 'Financial instruments: recognition and measurement' requires 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 of the Group Income Statement, in the results before certain re-measurements.

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in the separate column in the Group Income Statement. Items that may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges/releases, asset impairments/write-backs, certain pension past service credits, the tax effects of these items and the effect of changes in UK upstream tax rates.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Such key judgements include the following:

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Wind farm disposals

In prior years, the profits and losses arising on disposals of equity interests in wind farms were recognised within the business performance column of the Group Income Statement as part of the Central Power Generation segment. These divestments were in line with the Group's established wind farm strategy to realise value, share risk and reduce our capital requirements as individual projects developed, which involved bringing in partners at an appropriate stage or full disposal.

In July 2015, the Group announced its intention to exit its 245MW portfolio of wind assets. During 2016, the Group disposed of its investment in GLID Wind Farms TopCo Limited (GLID), which owned Glens of Foudland, Lynn and Inner Dowsing wind farms, as part of this strategy. The post-tax profit on disposal of £73 million was classified as an exceptional item in the Group Income Statement because the Directors judged the exit from the wind business to be non-recurring in nature and distinct from the Group's established wind farm strategy.

The Group completed its exit from wind generation ownership with the disposal of Lincs Wind Farm Limited, announced on 13 January 2017 and completed on 17 February 2017. This was treated in a similar manner as GLID in the Group Income Statement, generating an exceptional post-tax profit on disposal of £58 million (see note 15).

Leases – third-party power station tolling arrangements

The Group's Spalding long-term power station tolling contract in the UK was considered a lease during 2017.

The arrangement provided Centrica with the right to nominate 100% of the plant capacity for the duration of the contract in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. Management has determined that the arrangement should be accounted for as a finance lease, as the lease term was judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at the inception date of the arrangement amounted to substantially all of the fair value of the power station at that time. In May 2016 and December 2017, a number of revisions to this tolling arrangement were agreed; however this has not changed the accounting assessment of the contract as a finance lease.

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

Business combinations and asset acquisitions

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

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

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

During the year the Group acquired: Bayerngas Norge AS's exploration and production business; REstore NV, Europe's leading demand response aggregator; and the assets of Rokitt Inc. These acquisitions have been accounted for as business combinations as set out in note 15(a).

Spirit Energy consolidation and preference shares

During the year, the Group acquired Bayerngas Norge's exploration and production business and combined this with the Group's existing Exploration & Production business within the newly formed Spirit Energy business (SE). The Group's interest in SE is 69%. The Group can appoint 4 directors and the non-controlling interest SWM Bayerische E&P Beteiligungsgesellschaft mbH can appoint 2 directors with the CEO being an independent director. The Group, through this board majority, can control decisions that represent Board Reserved Matters which include the approval or amendment of the Business Plan or the Budget. The Directors consider that the right to approve or amend the Business Plan or Budget provides control over the relevant activities that most significantly influence the variable returns of the SE business. The Group, through its board majority, has power over this decision. Whilst SE has been established as an independent business, this is judged not to prevent the Group concluding that it controls SE. Additionally, Fundamental Reserved Matters, which require unanimous consent, are judged to represent minority protection rather than decision making rights associated with the relevant activities. Consequently SE is fully consolidated with a non-controlling interest of 31%.

Spirit Energy Limited (the parent company of SE) has issued preference shares to the Group and SWM Gasbeteiligungs GmbH & Co. KG. The Directors have reviewed the redemption and conversion rights of the shares and have concluded that in each case the redemption is at the discretion of the issuer, Spirit Energy Limited. Whilst the agreements provide incentives for the Group to redeem these shares through the waiver of its dividend under certain circumstances, and the agreements indicate an intention to redeem, the Group has concluded that Spirit Energy Limited retains the discretion to avoid redemption and therefore the preference shares do not represent an obligation. Similarly, the conversion rights are at the discretion of Spirit Energy Limited and do not create an obligation. The preference shares pay a fixed coupon or dividend of 5.5% plus a floating element subject to a cap of 1.5%, and again despite the agreement stating a dividend policy and the intention to pay dividends, these remain at the discretion of the directors of Spirit Energy Limited. Accordingly the preference shares are deemed to represent equity rather than a financial liability and therefore the 31% held by SWM Gasbeteiligungs GmbH & Co. KG forms part of the Group's non-controlling interest balance.

Consolidation of the CQ Energy Canada Partnership

The Suncor upstream acquisition in 2013 involved the formation of the CQ Energy Canada Partnership (CQECP) to acquire Suncor Energy's North American gas and oil assets. CQECP was owned and funded by the Group and Qatar Petroleum International (QPI) on a 60:40 basis. The partnership provided the Group with the ability to control the business plan and budgets and consequently the general operation of the assets.

Notes to the Financial Statements (continued)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Accordingly, this arrangement had been assessed under IFRS 10: 'Consolidated financial statements' and the conclusion had been reached that the Group had power over the relevant activities of CQCEP. This entity was fully consolidated into the Group's Financial Statements and QPI's ownership share was represented as a non-controlling interest up to its disposal on 29 September 2017. See note 15(d).

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 and ECO phase 2 had delivery dates of 31 March 2015 and 31 March 2017, respectively. ECO phase 2 (now ECO phase 2t) has been extended to 30 September 2018. The Group continues to judge that it is not legally obligated by this order until 30 September 2018 for ECO phase 2t. Accordingly, the costs of delivery are recognised as incurred, when cash was spent or unilateral commitments made, resulting in obligations that could not be avoided.

Metering contracts

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

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

(b) Key sources of estimation uncertainty

Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, and, in some cases, actuarial techniques. Although these estimates and associated assumptions are based on management's best knowledge of current events and circumstances, actual results may differ.

Revenue recognition – unreads 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 (known as unreads revenue). Unreads 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 readings being returned and system estimates. Actual meter readings 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. Unbilled revenue recognised on the balance sheet within trade and other receivables at 31 December 2017 was £1,585 million (2016: £1,715 million).

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. The difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or a lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of industry deemed supply. The Group reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance that will be achieved either through subsequent customer billing or through developing industry settlement procedures. The adjustments for imbalance at 31 December 2017 are not significant. However, changes resulting from these management estimates can be material with adjustments of between £50 million and £60 million having been made in the last few years.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of gas and oil fields (including storage facility assets) is reviewed periodically and is based on reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2040.

The level of provision held is also sensitive to the discount rate used to discount the estimated decommissioning costs. In 2016 the real discount rate used to discount the Group's European Exploration & Production decommissioning liabilities was reduced by 1%, which resulted in an increase in the provision of £229 million. The real discount rate used to discount the decommissioning liabilities at 31 December 2017 is unchanged at 1.2%.

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 could 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 property, plant and equipment (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 74.

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques.

Impairment of long-lived assets

The Group has several material long-lived assets, which are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note 6. The Group makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream Exploration & Production gas and oil assets, power generation assets, storage facility assets, Nuclear investment (20% economic interest accounted for as an investment in associate) and goodwill, as detailed below.

Exploration & Production gas and oil assets

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

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

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation and forecast power, gas, carbon and capacity prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. Further details of the impairment reversals booked during the year are provided in note 6.

Storage facility assets

The recoverable amount of the Group's operational storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on forecasts of the value from extracting cushion gas at the end of the life of the storage facility less any related capital and operating expenditure following the Group's application to permanently end Rough's status as a storage facility and the Group's application for a production consent to produce gas from the reservoir, which was granted on 15 January 2018, to take effect from 17 January 2018. Further details of the impairments booked during the year and sensitivity to the assumptions are provided in note 6.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing UK nuclear fleet operated by EDF. The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. Further details of the methodology and sensitivity to the assumptions are provided in note 6.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above) and hence the goodwill impairment tests are also subject to these key estimates. The results of these tests may then be verified by reference to external market valuation data.

Further details on the assumptions used in determining the recoverable amounts are provided in note 6. Sensitivity to the assumptions is also found in note 6 for goodwill allocated to Exploration & Production CGUs.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables is based on an incurred loss model and is determined by application of expected default and loss factors, informed by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Although 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.

Pensions and other post employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post employment benefits. Further details, including sensitivities to these assumptions, are provided in note 14.

Notes to the Financial Statements (continued)

4. RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of risks. Risk management is fundamental to the way the Group is governed and managed. Our system of risk management and internal control is set out in the 2016 Annual Report and Accounts.

During 2017, the risks which were prioritised for leadership attention related to:

- risk of political or regulatory intervention, change to the political or regulatory landscape;
- risk of financial loss due to our exposure to market movements, including commodity prices and volumes, inflation, interest rates and currency fluctuations;
- risk of failure to protect the health, safety, and security of customers, employees and third parties and also a negative impact on the environment; and
- risk that we do not deliver our strategy due to insufficient capability to execute it in line with plan or failure to adapt quickly enough to respond to changes in the external environment.

Our financial performance and price competitiveness is dependent upon our ability to manage exposure to wholesale commodity prices for gas, oil, carbon and power, interest rates for our long-term borrowing, fluctuations in various foreign currencies, and environmental factors. Financial risk is reviewed quarterly by the senior Finance stakeholders and the executive Group Risk Assurance and Control Committee (GRACC) to review Group financial exposures and assess compliance with risk limits. The four main areas of financial risk are managed as follows:

- commodity price risk management is carried out in accordance with individual business unit policies and directives including appropriate escalation routes;
- treasury risk management, including management of currency risk, interest rate risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy, as approved by the Board;
- wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy; and
- downstream customer credit risk management is carried out in accordance with individual business unit credit policies.

Credit risk for financial assets

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group continually reviews its rating thresholds for counterparty credit limits, and updates these as necessary, based on a consistent set of principles. It continues to operate within its limits. In both the US and Europe there is an effort to maintain a balance between exchange based trading and bilateral transactions. This allows for a reasonable balance between counterparty credit risk and potential liquidity requirements. In addition the Group actively manages the trade-off between credit and liquidity risks by optimising the use of contracts with collateral obligations and physically settled contracts without collateral obligations.

Liquidity risk management and going concern

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2017, the Group had undrawn committed credit facilities of £3,530 million (2016: £4,497 million) and £2,664 million (2016: £1,881 million) of unrestricted cash and cash equivalents. 238% (2016: 186%) 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 10.8 years (2016: 11.6 years).

The Group's liquidity is impacted by the cash posted or received under margin and collateral agreements. The terms and conditions of these depend on the counterparty and the specific details of the transaction. Cash is generally returned to the Group or by the Group within two days of trade settlement. Refer to note 11(b) for the movement in cash posted or received as collateral.

The relatively high level of undrawn committed bank facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern.

5. SEGMENTAL ANALYSIS

The Group's operating segments are those used internally by management to run the business and make decisions. The Group's operating segments are based on products and services. The operating segments are also the Group's reportable segments. The Group's results are discussed in the Business Review (pages 11 to 24).

(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
Centrica Consumer	
UK Home	(i) The supply of gas and electricity to residential customers in the UK; and (ii) the installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK.
Ireland	(i) The supply of gas, electricity and energy management solutions to residential, commercial and industrial customers in the Republic of Ireland; (ii) power generation in the Republic of Ireland; and (iii) the repair and maintenance of domestic central heating in the Republic of Ireland.
North America Home	(i) The supply of gas and electricity to residential customers in North America; and (ii) the installation and maintenance of heating, ventilation and air conditioning (HVAC) equipment and water heaters and the provision of breakdown services, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in North America.
Connected Home	The supply of new technologies and energy efficiency solutions to residential customers in all geographies in which the Group operates.
Centrica Business	
UK Business	The supply of gas and electricity and provision of energy-related services to business customers in the UK.
North America Business	(i) The supply of gas, electricity and energy-related services to business customers in North America; and (ii) procurement, trading and optimisation of energy in North America.
Distributed Energy & Power	The supply of energy efficiency solutions, flexible generation and new technologies to commercial and industrial customers in all geographies in which the Group operates. Flexible merchant generation is also provided to the UK system operator.
Energy Marketing & Trading	Trading and optimisation of energy.
Central Power Generation	Generation of power from combined cycle gas turbines (CCGT) and nuclear assets in the UK.
Exploration & Production	Production and processing of gas and oil and the development of new fields to maintain reserves in the UK and Europe and North America.
Centrica Storage	Gas storage in the UK, including production of cushion gas.

Notes to the Financial Statements (continued)

5. SEGMENTAL ANALYSIS

(b) Revenue

Gross segment revenue represents revenue generated from the sale of products and services to both third parties and to other reportable segments of the Group. Group revenue reflects only the sale of products and services to third parties. Sales between reportable segments are conducted on an arm's length basis.

Year ended 31 December	2017			2016		
	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Centrica Consumer						
UK Home	8,536	(5)	8,531	9,252	(8)	9,244
Ireland	827	–	827	781	–	781
North America Home	2,722	–	2,722	2,702	–	2,702
Connected Home	42	(14)	28	33	(8)	25
	12,127	(19)	12,108	12,768	(16)	12,752
Centrica Business						
UK Business	1,830	(2)	1,828	2,031	(1)	2,030
North America Business	8,158	–	8,158	7,664	–	7,664
Distributed Energy & Power	171	(4)	167	161	(2)	159
Energy Marketing & Trading	4,766	(234)	4,532	3,282	(88)	3,194
Central Power Generation	622	(196)	426	667	(209)	458
	15,547	(436)	15,111	13,805	(300)	13,505
Exploration & Production	1,600	(929)	671	1,642	(871)	771
Centrica Storage	148	(15)	133	93	(19)	74
	29,422	(1,399)	28,023	28,308	(1,206)	27,102

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)		Non-current assets (based on location of assets) (i)	
	2017 £m	2016 £m	2017 £m	2016 £m
UK	13,506	14,459	5,849	6,454
Republic of Ireland	769	719	102	95
Germany	608	345	–	–
Norway	359	370	1,758	1,299
Rest of Europe	1,565	537	445	205
United States of America	9,579	9,270	1,653	1,869
Canada	1,411	1,232	378	1,428
Rest of the world	226	170	5	53
	28,023	27,102	10,190	11,403

(i) Non-current assets comprise goodwill, other intangible assets, PP&E, interests in joint ventures and associates and non-financial prepayments and other receivables.

5. SEGMENTAL ANALYSIS

(c) Operating profit before and after taxation

The measure of profit used by the Group is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements. This includes results of equity-accounted interests before interest and taxation. This note also details adjusted operating profit after taxation. Both measures are reconciled to their statutory equivalents.

Year ended 31 December	Adjusted operating profit/(loss)		Adjusted operating profit/(loss)	
	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer				
UK Home	819	810	674	672
Ireland ⁽ⁱ⁾	47	46	37	41
North America Home	119	93	74	61
Connected Home	(95)	(50)	(71)	(40)
	890	899	714	734
Centrica Business				
UK Business ⁽ⁱ⁾	4	50	5	42
North America Business	71	221	44	145
Distributed Energy & Power	(53)	(26)	(41)	(20)
Energy Marketing & Trading	104	161	87	124
Central Power Generation ⁽ⁱ⁾	35	75	47	66
	161	481	142	357
Exploration & Production	184	187	37	50
Centrica Storage ⁽ⁱⁱ⁾	17	(52)	1	(53)
Adjusted operating profit	1,252	1,515	894	1,088
Share of joint ventures'/associates' interest and taxation	(7)	(48)		
Operating profit before exceptional items and certain re-measurements	1,245	1,467		
Exceptional items (note 6)	(884)	(11)		
Certain re-measurements included within gross profit (note 6)	153	1,058		
Certain re-measurements of associates' energy contracts (net of taxation) (note 6)	(28)	(28)		
Operating profit after exceptional items and certain re-measurements	486	2,486		

Year ended 31 December	2017 £m	2016 £m
Adjusted operating profit after taxation ⁽ⁱⁱⁱ⁾	894	1,088
Impact of changes to corporate tax rates (note 8) ^(iv)	34	30
Corporate and other taxation, and interest (net of taxation) ^(v)	(218)	(233)
Business performance profit for the year	710	885
Exceptional items and certain re-measurements (net of taxation) (note 6)	(407)	777
Statutory profit for the year	303	1,662

(i) In 2017 the effective tax rates of certain segments, including Ireland, UK Business and Central Power Generation, are impacted by prior year adjustments. In both 2017 and 2016 the Central Power Generation segment effective tax rate was also impacted by non-taxable income in the segment's associate's profits.

(ii) In 2017, the effective tax rate in the Centrica Storage segment is higher (2016: lower) than the standard UK Corporation tax rate of 19.25% due principally to the mix of profits and losses across upstream and downstream activities, to which different tax rates apply (see note 8).

(iii) Segment adjusted operating profit after taxation includes profit of £7 million (2016: loss of £5 million) attributable to non-controlling interests.

(iv) The 2017 amount relates to a change to the US tax rate; the 2016 amount related to changes to UK tax rates. The amounts include nil (2016: £9 million) relating to equity-accounted interests.

(v) Includes joint ventures'/associates' interest, net of associated taxation.

Notes to the Financial Statements (continued)

5. SEGMENTAL ANALYSIS

(d) Included within adjusted operating profit

Presented below are certain items included within adjusted operating profit, including further details of impairments of property, plant and equipment and write-downs relating to exploration and evaluation assets.

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation and impairments of property, plant and equipment		Amortisation, write-downs and impairments of intangibles	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer						
UK Home	-	-	(51)	(51)	(108)	(111)
Ireland	-	-	(3)	(2)	(9)	(9)
North America Home	-	-	(13)	(6)	(50)	(49)
Connected Home	-	-	(1)	-	(11)	(6)
	-	-	(68)	(59)	(178)	(175)
Centrica Business						
UK Business	-	-	(2)	(2)	(12)	(11)
North America Business	-	-	(8)	(2)	(40)	(39)
Distributed Energy & Power	-	-	(8)	(6)	(8)	(9)
Energy Marketing & Trading	-	-	(1)	-	(10)	(11)
Central Power Generation	58	178	(10)	(27)	-	-
	58	178	(29)	(37)	(70)	(70)
Exploration & Production	-	-	(533)	(578)	(14)	(25)
Centrica Storage	-	-	(38)	(36)	-	(1)
Other⁽ⁱ⁾	-	-	(5)	(27)	(9)	(17)
	58	178	(673)	(737)	(271)	(288)

(i) The Other segment includes corporate functions, subsequently recharged.

Impairments of property, plant and equipment

During 2017, a £2 million impairment charge was recognised in the Distributed Energy & Power segment. During 2016, impairments and write-backs were recognised as follows: Exploration & Production: £86 million impairment, Central Power Generation: £3 million write-back, Distributed Energy & Power: £1 million impairment. Considering their size and nature, all such current and prior year impairments and write-backs were recognised within business performance.

Write-downs and impairments of intangible assets

During 2017, £9 million of write-downs (2016: £19 million) relating to exploration and evaluation assets were recognised in the Exploration & Production segment. During 2016, a £1 million impairment of application software was recognised in the Ireland segment. All such current and prior year impairments and write-downs were recognised within business performance as they were not deemed exceptional in nature.

5. SEGMENTAL ANALYSIS

(e) Capital expenditure

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

Year ended 31 December	Capital expenditure on property, plant and equipment		Capital expenditure on intangible assets other than goodwill	
	2017 £m	2016 £m	2017 £m	2016 £m
Centrica Consumer				
UK Home	69	48	398	327
Ireland	2	5	8	6
North America Home	18	6	5	3
Connected Home	4	3	31	21
	93	62	442	357
Centrica Business				
UK Business	1	1	190	164
North America Business	6	6	290	210
Distributed Energy & Power	106	9	9	1
Energy Marketing & Trading	3	7	77	40
Central Power Generation	28	13	–	–
	144	36	566	415
Exploration & Production	391	528	40	11
Centrica Storage	43	33	–	–
Other⁽ⁱ⁾	36	15	36	53
Capital expenditure	707	674	1,084	836
Capitalised borrowing costs	(10)	(61)	–	(1)
Inception of new finance leases and movements in payables and prepayments related to capital expenditure	(87)	8	1	–
Purchases of emissions allowances and renewable obligation certificates	–	–	(813)	(627)
Net cash outflow⁽ⁱⁱ⁾	610	621	272	208

(i) The Other segment relates to corporate assets.

(ii) The cash outflow relating to intangible assets includes £41 million (2016: £11 million) relating to exploration and evaluation of gas and oil assets.

Notes to the Financial Statements (continued)

5. SEGMENTAL ANALYSIS

(f) Adjusted operating cash flow

Adjusted operating cash flow is used by management to assess the cash generating abilities of each segment. Adjusted operating cash flow is net cash flow from operating activities before payments relating to exceptional items, deficit payments to the UK defined benefit pension schemes, movements in variation margin and cash collateral that are included in net debt, but including dividends from joint ventures and associates. This measure is reconciled to the net cash flow from operating activities.

Year ended 31 December	2017 £m	2016 £m
Centrica Consumer		
UK Home	928	1,053
Ireland	62	84
North America Home	154	146
Connected Home	(121)	(58)
	1,023	1,225
Centrica Business		
UK Business	131	418
North America Business	87	285
Distributed Energy & Power	(30)	(15)
Energy Marketing & Trading	262	198
Central Power Generation	58	(1)
	508	885
Exploration & Production	448	655
Centrica Storage	61	(49)
Other ⁽ⁱ⁾	29	(30)
Adjusted operating cash flow	2,069	2,686
Dividends received from joint ventures and associates	(58)	(117)
UK pension deficit payments	(131)	(77)
Payments relating to exceptional charges	(176)	(273)
Margin and cash collateral included in net debt	136	177
Net cash flow from operating activities	1,840	2,396

(i) The Other segment includes corporate functions.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Items which may be considered exceptional in nature include disposals of businesses or significant assets, business restructurings, significant onerous contract charges and releases, and asset write-downs/impairments and write-backs.

(a) Exceptional items

Year ended 31 December	2017 £m	2016 (restated) (i) £m
(Impairment)/write-back of retained Exploration & Production assets (ii)	(408)	79
Impairment of UK gas storage assets (iii)	(270)	(176)
Write-back of retained Central Power Generation assets	–	26
Net gain on disposal of Central Power Generation businesses and assets (iv)	72	73
(Loss)/net gain on disposal of Exploration & Production businesses and material assets (v)	(134)	106
Loss on disposal of North America Home businesses and assets	–	(22)
Pension past service credit	–	78
Onerous power procurement contract release	–	53
Restructuring costs (vi)	(88)	(228)
Business change costs (vii)	(56)	–
Exceptional items included within Group operating profit	(884)	(11)
Net taxation on exceptional items (note 8) (viii)	408	9
Effect of change in UK upstream tax rates (note 8)	–	29
Net exceptional items after taxation	(476)	27

- (i) Prior year comparatives have been re-presented so that associated impairments and gains or losses on disposal are presented on a consistent basis with the current year classification.
- (ii) In the Exploration & Production segment, net impairments of assets have been booked relating to the net decreases in value of certain UK, Dutch and Norwegian gas and oil fields (pre-tax impairments £494 million, post-tax £162 million; including a PRT credit of £207 million), predominantly due to a reduction in long-term price forecasts, reserves and changes to expected decommissioning costs following the conclusion of the triennial review. Also included is the reduction of decommissioning provisions (pre-tax £86 million, post-tax £51 million) for assets previously impaired through exceptional items.
- (iii) A pre-tax impairment of £270 million (post-tax £224 million) has been recorded in the current year in respect of the UK Rough gas storage asset, following the June 2017 announcement to apply for a production licence and permanently end Rough's status as a storage facility.
- (iv) On 17 February 2017, the Group disposed of its joint venture investment in Lincs Wind Farm for net proceeds of £214 million, giving rise to a pre-tax gain on disposal of £64 million (post-tax £58 million). On 31 August 2017, the Group disposed of its Langage, South Humber Bank and Kings Lynn B power station assets for net proceeds of £314 million, giving a pre and post-tax loss of £7 million. These power station assets were originally classified as held for sale as at 30 June 2017 and a net pre-tax write-back of £15 million (post-tax £12 million) was recognised.
- (v) On 27 May 2017, the Group disposed of its remaining portfolio of gas assets in Trinidad and Tobago for consideration of US\$35 million (£26 million) giving rise to a pre and post-tax loss on disposal of £9 million. On 29 September 2017, the Group disposed of its Canadian exploration and production business for C\$420 million (£255 million) giving rise to a pre and post-tax loss on disposal of £28 million. These Canadian exploration and production assets were classified as held for sale as at 30 June 2017 and a net pre-tax impairment of £97 million (post-tax £81 million) was recorded. Both the Canadian exploration and production business and the Trinidad and Tobago assets were foreign operations and accounted for in non-GBP currencies. Consequently the relevant foreign currency translation reserve (including any net investment hedging) has been recycled to the Group Income Statement.
- (vi) Following the Group's strategic review announced in 2015, the Group has incurred restructuring costs during the year implementing the new organisational model relating principally to redundancy costs, transformational spend and consultancy costs. The post-tax impact was £68 million.
- (vii) Business change costs relate to changing the business operating model in Storage, the Exploration & Production Bayerngas Norge acquisition and the closure of the US solar business. The costs principally relate to impairment of assets, redundancy and consultancy costs and various change of control costs associated with the Bayerngas Norge transaction. The post-tax impact was £39 million.
- (viii) Included within net taxation is a £21 million credit associated with the leased Spalding CCGT power station, previously impaired through exceptional items.

(b) Certain re-measurements

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.

Year ended 31 December	2017 £m	2016 £m
Certain re-measurements recognised in relation to energy contracts:		
Net (losses)/gains arising on delivery of contracts	(54)	968
Net gains arising on market price movements and new contracts	207	90
Net re-measurements included within gross profit	153	1,058
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(28)	(28)
Net re-measurements included within Group operating profit	125	1,030
Taxation on certain re-measurements (note 8) (i)	(56)	(280)
Net re-measurements after taxation	69	750

- (i) 2017 includes £37 million charge due to the effect of changes in US tax rates. 2017 also includes a prior year tax credit of £28 million (2016: £1 million charge).

The Group is generally a net buyer of commodity, procuring gas and power for our customers. Following some increases in commodity prices during 2017, net gains arising on market price movements and new contracts of £207 million (2016: £90 million gain) have been recognised.

Notes to the Financial Statements (continued)

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(c) Impairment accounting policy, process and sensitivities

The Group tests the carrying amounts of goodwill, PP&E and intangible assets (with the exception of exploration) for impairment annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Interests in joint ventures and associates and exploration assets are reviewed annually for indicators of impairment and tested for impairment where such an indicator arises. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD).

At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Group Income Statement. Any CGU impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

The impairment tests for the Exploration & Production gas and oil assets and CGUs (including goodwill), the Group's associate investment in Nuclear and the Storage PP&E asset, have used FVLCD to determine their recoverable amounts. This methodology is deemed to be appropriate for these assets and 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. VIU calculations have been used to determine recoverable amounts for all other CGUs that include goodwill and indefinite-lived intangible assets. UK power generation assets have also been valued using the VIU impairment methodology.

FVLCD discount rate and cash flow assumptions

The price assumptions used to determine recoverable amounts for FVLCD calculations are based on the liquid market prices for the three year period, 2018 to 2020. The longer term price assumptions thereafter are derived using valuation techniques based on available external data and with reference to market comparators. The average price for the period 2018 to 2022 was 45p per therm for NBP Gas, US\$65 per barrel for Brent and £43 per MWh for Baseload Power (all in real terms) thereafter nominal prices are broadly inflated. The valuation of the Group's portfolio of assets is more sensitive to NBP Gas and Baseload Power prices than to Brent.

Exploration & Production assets

A net impairment of £408 million (2016: write-back £79 million) has been recorded within exceptional items for retained Exploration & Production assets net of £86 million of reductions to decommissioning provisions. For those assets subject to the net impairment, the associated recoverable amounts (net of decommissioning costs) of £401 million are categorised within Level 3 of the fair value hierarchy. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the gas and oil production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available (that is outside the active period for each commodity), prices are determined based on internal model inputs. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCD calculation for the first five years are based on the Group's Board-approved business plans and, thereafter, are based on long-term production and cash flow forecasts, which management believes reflects the assumptions of a market participant.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8.5% (2016: 9.0%) 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 calculation, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of Exploration & Production assets and goodwill are 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 & Production assets, an increase in gas and oil prices of 10% would potentially reverse £148 million (2016: £89 million) of previous post-tax impairment charges of the underlying exploration and production assets. A reduction of 10% would potentially give rise to further post-tax impairments of the underlying legacy exploration and production assets of £140 million (2016: £166 million) but no post-tax impairment of goodwill (2016: nil) due to adequate headroom.

Storage

The recoverable amount of the Group's storage facility (Rough) is calculated on a FVLCD basis by discounting the post-tax cash flows expected to be generated by the asset. In June 2017, the Group announced that the Rough facility could not be safely returned to injection and storage operations and it therefore intended to make all relevant applications to permanently end Rough's status as a storage facility. The Group received production consent on 15 January 2018, effective from 17 January 2018, to produce gas from the reservoir. Since the cash generating unit that comprises the UK gas storage assets will continue to operate, the Storage business does not qualify as a discontinued operation under IFRS 5: 'Non-current assets held for sale and discontinued operations'.

The cash flow estimates in the recoverable amount calculation have been based on the revenue from extracting the cushion gas less any related capital, operating and decommissioning expenditure. The key assumptions in these estimates are forward gas prices, the timing of government consent for production, the amount of gas available and the rate of extraction. Where forward market gas prices are not available, prices are determined based on internal model inputs. The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7.5% (2016: 7.5%) to determine FVLCD.

6. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

A pre-tax impairment charge of £270 million (post-tax £224 million) has been recorded within exceptional items in the current period. The valuation of the recoverable amount of the asset is categorised within Level 3 of the fair value hierarchy. The carrying amount after this impairment amounts to a net liability position of £88 million, including the decommissioning provision and deferred tax. The impairment test is particularly sensitive to price assumptions made in the impairment calculation. To illustrate this, the price assumptions for gas and liquids have been varied by +/-10%. An increase of 10% would potentially reverse impairments of £76 million. A decrease of 10% would potentially give rise to a further impairment of £20 million.

Central Power Generation – Nuclear

No impairment charge has been recorded (2016: nil) for the Group's associate investment in Nuclear. FVLCD is determined by discounting the post-tax cash flows expected to be generated by the investment, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of the underlying nuclear power stations, planned and unplanned outage assumptions, operating cost assumptions and forward prices for power and forecast capacity market auction prices. Where forward market prices are not available (that is outside the active period for each commodity), prices are determined based on internal model inputs. Post-tax cash flows used in the FVLCD calculations for the first five years are based on the Group's Board-approved business plans and thereafter are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 7% (2016: 8%) to determine the FVLCD. The discount rate and inflation rate used in the FVLCD calculation are determined in the same manner as the rates used in the VIU calculations, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

The valuation of the Group's investment in Nuclear, which is categorised within Level 3 of the fair value hierarchy, is particularly sensitive to assumptions/variations in the power price. To illustrate this, sensitivities were performed at the year end to vary the power price assumptions in the Group's internal valuation model by +/-10% and separately to vary the discount rate by +/-1%. An increase in power prices of 10%, assuming all other assumptions remain constant, would result in a reversal of previous impairments of £477 million (2016: £444 million). A reduction of 10% would give rise to an impairment charge of £442 million (2016: £461 million). An increase in the discount rate of 1%, assuming all other assumptions remain constant, would result in an impairment charge of £125 million (2016: £138 million). A decrease in the discount rate of 1% would result in an impairment write-back of £187 million (2016: £145 million).

7. NET FINANCE COST

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

Year ended 31 December	2017			2016		Total £m
	Financing costs £m	Investment income £m	Total £m	Financing costs £m	Investment income £m	
Cost of servicing net debt:						
Interest income	-	19	19	-	35	35
Interest cost on bonds, bank loans and overdrafts ⁽ⁱ⁾	(289)	-	(289)	(305)	-	(305)
Interest cost on finance leases	(14)	-	(14)	(15)	-	(15)
	(303)	19	(284)	(320)	35	(285)
Net gains on revaluation	-	1	1	-	2	2
Notional interest arising from discounting	(71)	-	(71)	(79)	-	(79)
	(374)	20	(354)	(399)	37	(362)
Capitalised borrowing costs ⁽ⁱⁱ⁾	10	-	10	62	-	62
(Cost)/income	(364)	20	(344)	(337)	37	(300)

(i) During 2017 the Group decreased its outstanding bond debt principal by US\$200 million. See note 11(c).

(ii) Borrowing costs have been capitalised using an average rate of 4.55% (2016: 4.53%). Capitalised interest has attracted tax deductions totalling £8 million (2016: £18 million), with deferred tax liabilities being set up for the same amounts.

Notes to the Financial Statements (continued)

8. TAXATION

The taxation note details the different tax charges and rates, including current and deferred tax arising in the Group. The current tax charge is the tax payable on this year's taxable profits together with amendments in respect of tax provisions made in earlier years. This tax charge excludes share of taxation on the results of joint ventures and associates. Deferred tax represents the tax on differences between the accounting carrying values of assets and liabilities and their tax bases. These differences are temporary and are expected to unwind in the future.

Analysis of tax charge

Year ended 31 December	2017			2016		
	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	(50)	(20)	(70)	(103)	134	31
UK petroleum revenue tax	63	–	63	8	–	8
Non-UK tax	(35)	7	(28)	(220)	16	(204)
Adjustments in respect of prior years – UK ⁽ⁱ⁾	29	(31)	(2)	60	53	113
Adjustments in respect of prior years – non-UK	(10)	(2)	(12)	4	–	4
Total current tax	(3)	(46)	(49)	(251)	203	(48)
Deferred tax						
Origination and reversal of temporary differences – UK	(44)	169	125	54	(174)	(120)
UK petroleum revenue tax ⁽ⁱⁱ⁾	(6)	207	201	(12)	–	(12)
Origination and reversal of temporary differences – non-UK	(255)	(23)	(278)	(75)	(262)	(337)
Change in tax rates ⁽ⁱⁱⁱ⁾	34	(37)	(3)	21	45	66
Adjustments in respect of prior years – UK ⁽ⁱ⁾	57	90	147	(59)	(60)	(119)
Adjustments in respect of prior years – non-UK ^(iv)	26	(8)	18	40	6	46
Total deferred tax	(188)	398	210	(31)	(445)	(476)
Total taxation on profit/(loss) ^(v)	(191)	352	161	(282)	(242)	(524)

(i) The net UK adjustments in respect of prior years in 2017 include uncertain tax provision movements of £49 million and deferred tax adjustments of £35 million relating to the treatment of certain derivatives.

(ii) An increased deferred PRT asset has been recognised, reflecting a reduction in long-term price forecasts and changes to expected decommissioning costs.

(iii) During the year, the US tax rate was reduced from 35% to 21%. This has resulted in a £3 million charge to be recognised within the year due to a change to the net deferred tax assets at the date the rate changed.

(iv) A comprehensive review as part of business transformation activities in North America during 2016 enabled certain deferred tax balances to be adjusted.

(v) Total taxation on profit/(loss) excludes taxation on the Group's share of profits of joint ventures and associates.

UK tax rates

The Group earns the majority of its profits in the UK. Most activities in the UK are subject to the standard rate for UK corporation tax, which for 2017 was 19.25% (2016: 20%). Upstream gas and oil production activities are taxed at a UK corporation tax rate of 30% (2016: 30%) plus a supplementary charge of 10% (2016: 10%) to give an overall rate of 40% (2016: 40%). In addition, certain upstream assets in the UK attract petroleum revenue tax (PRT) at 0% (2016: 0%), giving an overall effective rate of 40% (2016: 40%).

On 6 September 2016, the UK Government substantively enacted Finance Act 2016 which included a reduction in the main UK corporation tax rate to 17% from 1 April 2020. At 31 December 2017, the relevant UK deferred tax assets and liabilities included in these consolidated Group Financial Statements were based on the reduced rate having regard to their reversal profiles.

Non-UK tax rates

Norwegian upstream profits are taxed at the standard rate of 24% (2016: 25%) plus a special tax of 54% (2016: 53%) resulting in an aggregate tax rate of 78% (2016: 78%). Profits earned in the US prior to 22 December 2017 were taxed at a Federal rate of 35% together with state taxes at various rates dependent on the state. On 22 December 2017, the US enacted a reduction in the Federal rate to 21% effective from 1 January 2018. Deferred tax assets and liabilities at 31 December 2017 were based on the reduced rate. Taxation for other jurisdictions is calculated at the rate prevailing in those respective jurisdictions, with rates ranging from 12.5% in the Republic of Ireland to 50% in the Netherlands. The tax charges were not material in such jurisdictions.

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

9. DIVIDENDS

Dividends represent the return of profits to shareholders and are paid twice a year; in June and November. Dividends are paid as an amount per ordinary share held. The Group retains part of the profits generated to meet future investment plans or to fund share repurchase programmes.

	£m	Pence per share	2017 Date of payment	£m	Pence per share	2016 Date of payment
Prior year final dividend ⁽ⁱ⁾	459	8.40	29 Jun 2017	454	8.43	23 Jun 2016
Interim dividend	202	3.60	30 Nov 2017	197	3.60	24 Nov 2016
	661			651		

(i) Included within the prior year final dividend are forfeited dividends of £2 million (2016: £3 million) older than 12 years that were written back in accordance with Group policy.

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £470 million) for the year ended 31 December 2017. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2018 and, subject to approval, will be paid on 28 June 2018 to those shareholders registered on 11 May 2018.

Since 2015, the Company has offered a scrip dividend alternative to its shareholders. £191 million of the £459 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 £1.93 per share resulting in the issue of 99 million new shares and £185 million of share premium.

Similarly, £7 million of the £202 million interim dividend was taken as a scrip dividend. The market value per share at the date of payment was £1.74 resulting in the issue of 4 million new shares and £7 million of share premium.

The Group has sufficient distributable reserves to pay dividends to its ultimate shareholders. Distributable reserves are calculated on an individual legal entity basis and the ultimate parent company, Centrica plc, currently has adequate levels of realised profits within its retained earnings to support dividend payments. On an annual basis, the distributable reserve levels of the Group's subsidiary undertakings are reviewed and dividends paid up the ownership chain to replenish Centrica plc's reserve levels.

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 earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the Company for the year of £333 million (2016: £1,672 million) by the weighted average number of ordinary shares in issue during the year of 5,537 million (2016: 5,318 million). The number of shares excludes 53 million ordinary shares (2016: 61 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 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 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	2017 Million shares	2016 Million shares
Weighted average number of shares – basic	5,537	5,318
Dilutive impact of share-based payment schemes ⁽ⁱ⁾	42	43
Weighted average number of shares – diluted	5,579	5,361

(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.

Notes to the Financial Statements (continued)

10. EARNINGS PER ORDINARY SHARE

Basic to adjusted basic earnings per share reconciliation

Year ended 31 December	£m	2017 Pence per ordinary share	£m	2016 Pence per ordinary share
Earnings – basic	333	6.0	1,672	31.4
Net exceptional items after taxation (notes 2 and 6) ⁽ⁱ⁾	435	7.9	(27)	(0.5)
Certain re-measurement gains after taxation (notes 2 and 6) ⁽ⁱ⁾	(70)	(1.3)	(750)	(14.1)
Earnings – adjusted basic	698	12.6	895	16.8
Earnings – diluted	333	6.0	1,672	31.2
Earnings – adjusted diluted	698	12.5	895	16.7

(i) Net exceptional loss after taxation of £476 million (2016: profit £27 million) is reduced by £41 million (2016: nil) 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. Similarly, certain re-measurement gains of £69 million (2016: £750 million) are increased by £1 million (2016: nil) to reflect the share of net re-measurement losses attributable to non-controlling interests.

11. SOURCES OF FINANCE

(a) Capital structure

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

31 December	2017 £m	2016 £m
Net debt	2,596	3,473
Equity	2,699	2,666
Capital	5,295	6,139

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.

The level of debt that can be raised by the Group is restricted by the Company's Articles of Association. Borrowings is limited to the higher of £10 billion and a gearing ratio of three times adjusted capital and reserves. The Group funds its long-term debt requirements through issuing bonds in the capital markets and taking bank debt. Short-term debt requirements are met primarily through 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.

British Gas Insurance Limited (BGIL) is required under PRA regulations to hold a minimum capital amount and has complied with this requirement in 2017 (and 2016). BGIL's capital management policy and plan is subject to review and approval by BGIL's board. Reporting processes provide relevant and timely capital information to management and the board. A medium-term capital management plan forms a part of BGIL's planning and forecasting process, embedded into approved timelines, management reviews and board approvals.

In the period from 2015-2017, the Group has reduced its overall levels of net debt, in accordance with its strategic objectives and financial framework. This has resulted in an increase in overall levels of cash held. The Group regularly reviews its cash and gross debt positions and considers opportunities for early retirement of debt in order to maintain a more efficient balance sheet.

11. SOURCES OF FINANCE

(b) Net debt summary

Net debt predominantly includes capital market borrowings offset by cash, cash posted or received as collateral, securities and certain hedging financial instruments used to manage interest rate and foreign exchange movements on borrowings.

Presented in the derivatives and current and non-current borrowings, finance leases and interest accruals, net of related deposits columns shown below are the assets and liabilities that give rise to financing cash flows.

	Cash and cash equivalents, net of bank overdrafts (restated) (i) (ii) (iii) £m	Cash posted/ (received) as collateral (iv) £m	Current and non-current securities (v) £m	Current and non-current borrowings, finance leases and interest accruals, net of related deposits (restated) (i) £m	Derivatives (restated) (i) £m	Net debt (restated) (i) £m
1 January 2016	860	535	244	(6,468)	82	(4,747)
Net cash inflow from sale of securities (vi)	28	–	(28)	–	–	–
Cash outflow from payment of capital element of finance leases	(50)	–	–	50	–	–
Cash outflow from repayment of borrowings	(427)	–	–	427	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vii)	1,700	(177)	–	–	–	1,523
Revaluation	–	–	8	(25)	199	182
Financing interest paid	(204)	–	–	343	10	149
Increase in interest payable and amortisation of borrowings	–	–	–	(351)	–	(351)
Acquisition of businesses	–	32	–	(6)	–	26
New finance lease agreements	–	–	–	(32)	–	(32)
Exchange adjustments	53	106	8	(390)	–	(223)
31 December 2016	1,960	496	232	(6,452)	291	(3,473)
Net cash outflow from purchase of securities	(2)	–	2	–	–	–
Cash outflow from payment of capital element of finance leases	(45)	–	–	45	–	–
Cash outflow from repayment of borrowings	(226)	–	–	226	–	–
Remaining cash inflow and movement in cash posted/received under margin and collateral agreements (vii)	1,393	(136)	–	–	–	1,257
Revaluation	–	–	4	36	23	63
Financing interest paid	(318)	–	–	322	(48)	(44)
Increase in interest payable and amortisation of borrowings	–	–	–	(328)	–	(328)
Acquisition of businesses	–	–	–	(66)	–	(66)
New finance lease agreements	–	–	–	(53)	–	(53)
Exchange adjustments	(25)	(24)	(2)	99	–	48
31 December 2017	2,737	336	236	(6,171)	266	(2,596)

(i) Comparatives have been re-presented to be consistent with the current year presentation where the cash flow related to financing interest has been separately disclosed in accordance with the amendment to IAS 7: 'Statement of cash flows', which has been adopted this year.

(ii) Cash and cash equivalents includes £200 million (2016: £155 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. This includes cash totalling £65 million (2016: nil) within the Spirit Energy business that is not restricted by regulation but is managed by its own treasury department.

(iii) Cash and cash equivalents are net of £127 million bank overdrafts (2016: £76 million). This is offset by a corresponding gross up in current borrowings.

(iv) 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 as at 31 December 2017, £29 million (2016: £21 million) is included within trade and other payables, £253 million (2016: £307 million) within trade and other receivables, and £112 million (2016: £210 million) has been settled 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.

(v) Securities balances include £128 million (2016: £130 million) of index-linked gilts which the Group uses for short-term liquidity management purposes and £108 million (2016: £102 million) of available-for-sale financial assets. The Group has posted £29 million (2016: £29 million) of non-current securities as collateral against an index-linked swap maturing on 16 April 2020.

(vi) Includes sale of shares in Enercare Inc. which were sold in 2016 for consideration of C\$61 million (£31 million).

(vii) Including non-cash movements relating to the reversal of collateral amounts posted when the related derivative contract settles (where these daily margin amounts posted reduce the ultimate amount payable/receivable on settlement of the related derivative contract).

Notes to the Financial Statements (continued)

11. SOURCES OF FINANCE

(c) Borrowings, finance leases and interest accruals summary

31 December	Coupon rate %	Principal m	Current £m	Non-current £m	2017 Total £m	Current £m	Non-current £m	2016 Total £m
Bank overdrafts			(127)	–	(127)	(76)	–	(76)
Bank loans (> 5 year maturity)			–	(138)	(138)	–	(148)	(148)
Bonds (by maturity date):								
14 April 2017	Floating	US\$200	–	–	–	(162)	–	(162)
19 September 2018 ⁽ⁱ⁾	7.000	£400	(411)	–	(411)	–	(425)	(425)
1 February 2019	3.213	€100	–	(89)	(89)	–	(85)	(85)
25 September 2020	Floating	US\$80	–	(59)	(59)	–	(65)	(65)
22 February 2022	3.680	HK\$450	–	(43)	(43)	–	(47)	(47)
10 March 2022 ⁽ⁱ⁾	6.375	£500	–	(531)	(531)	–	(541)	(541)
16 October 2023 ⁽ⁱ⁾	4.000	US\$750	–	(563)	(563)	–	(622)	(622)
4 September 2026 ⁽ⁱ⁾	6.400	£200	–	(225)	(225)	–	(228)	(228)
16 April 2027	5.900	US\$70	–	(51)	(51)	–	(56)	(56)
13 March 2029 ⁽ⁱ⁾	4.375	£750	–	(751)	(751)	–	(751)	(751)
5 January 2032 ⁽ⁱⁱ⁾	Zero	€50	–	(57)	(57)	–	(54)	(54)
19 September 2033	7.000	£770	–	(763)	(763)	–	(763)	(763)
16 October 2043	5.375	US\$600	–	(437)	(437)	–	(480)	(480)
12 September 2044	4.250	£550	–	(537)	(537)	–	(537)	(537)
25 September 2045	5.250	US\$50	–	(36)	(36)	–	(40)	(40)
10 April 2075 ^{(i) (iii)}	5.250	£450	–	(455)	(455)	–	(457)	(457)
10 April 2076 ^(iv)	3.000	€750	–	(664)	(664)	–	(637)	(637)
			(411)	(5,261)	(5,672)	(162)	(5,788)	(5,950)
Obligations under finance leases ^(v)			(49)	(192)	(241)	(39)	(194)	(233)
Interest accruals			(120)	–	(120)	(121)	–	(121)
			(707)	(5,591)	(6,298)	(398)	(6,130)	(6,528)

(i) Bonds or portions of bonds maturing in 2018, 2022, 2023, 2026, 2029 and 2075 have been designated in a fair value hedge relationship.

(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 £39 million (2016: £37 million).

12. JOINT VENTURES AND ASSOCIATES

Share of results of joint ventures and associates represents the results of businesses where we exercise joint control or significant influence and generally have an equity holding of up to 50%.

(a) Share of results of joint ventures and associates

The Group's share of results of joint ventures and associates for the year ended 31 December 2017 principally arises from its interest in Nuclear - Lake Acquisitions Limited, an associate, reported in the Central Power Generation segment.

Year ended 31 December	2017 £m	2016 £m
Income	538	686
Expenses excluding certain re-measurements	(480)	(508)
Certain re-measurements	(29)	(29)
	29	149
Financing costs	(1)	(32)
Taxation excluding certain re-measurements	(6)	(16)
Taxation on certain re-measurements	1	1
Share of post-taxation results of joint ventures and associates ⁽ⁱ⁾	23	102

(i) The 2016 comparative includes the Group's share of results of the GLID Wind Farms TopCo Limited and Lincs Wind Farm Limited joint ventures. The Group's interest in GLID Wind Farms TopCo Limited was disposed of during 2016. The Group's interest in Lincs Wind Farm Limited was held for sale in 2017 up to the date of disposal on 17 February 2017 and therefore gave rise to no equity accounted comprehensive income during the period. See note 15(d).

(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	2017 £m	2016 £m
Share of post-taxation results of joint ventures and associates	23	102
Certain re-measurements (net of taxation)	28	28
Financing costs	1	32
Taxation (excluding taxation on certain re-measurements)	6	16
Share of adjusted results of joint ventures and associates	58	178

(c) Interests in joint ventures and associates

	2017 Investments in joint ventures and associates (i) £m	Investments in joint ventures and associates £m	Shareholder loans £m	2016 Total £m
1 January	1,697	1,679	160	1,839
Additions	6	17	–	17
Disposals	(4)	21	(41)	(20)
Share of profits for the year	23	102	–	102
Share of other comprehensive income	43	56	–	56
Transfer to held for sale	–	(55)	(113)	(168)
Impairment ⁽ⁱⁱ⁾	(4)	(3)	–	(3)
Dividends ⁽ⁱⁱⁱ⁾	(60)	(129)	–	(129)
Exchange adjustments	(2)	3	–	3
31 December	1,699	1,691	6	1,697

(i) There are no shareholder loans remaining as at 31 December 2017.

(ii) Including impairment of shareholder loans of £1 million, subsequently disposed.

(iii) Included within dividends is a non-cash £2 million (2016: £12 million) tax credit received in lieu of payment.

Notes to the Financial Statements (continued)

12. JOINT VENTURES AND ASSOCIATES

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

31 December	Associates Nuclear £m	Other £m	2017	2016
			Total £m	Total £m
Share of non-current assets	3,678	11	3,689	3,687
Share of current assets	692	9	701	641
	4,370	20	4,390	4,328
Share of current liabilities	(139)	(1)	(140)	(150)
Share of non-current liabilities	(1,961)	(1)	(1,962)	(1,901)
	(2,100)	(2)	(2,102)	(2,051)
Cumulative impairment	(586)	(3)	(589)	(586)
Share of net assets of joint ventures and associates	1,684	15	1,699	1,691
Shareholder loans	–	–	–	6
Interests in joint ventures and associates	1,684	15	1,699	1,697
Net cash included in share of net assets	84	–	84	78

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage the risk arising from fluctuations in the value of certain assets or liabilities, associated with treasury management, energy sales and procurement. These derivatives are held at fair value, and are predominantly unrealised positions, expected to unwind in future periods. The Group also uses derivatives for proprietary energy trading purposes.

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value, with changes in fair value recognised in the Group's results for the year, before exceptional items and certain re-measurements. ⁽ⁱ⁾
Energy procurement/optimisation	Carried at fair value, with changes in fair value reflected in certain re-measurements.

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts.

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges or cash flow hedges. The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

31 December	Assets £m	2017 Liabilities £m	Assets £m	2016 Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement/optimisation	1,020	(868)	1,420	(1,360)
Energy derivatives – for proprietary trading	48	(70)	33	(92)
Interest rate derivatives	–	(28)	–	(30)
Foreign exchange derivatives	32	(32)	93	(103)
Energy contracts designated at fair value through profit or loss	–	–	18	–
Derivative financial instruments in hedge accounting relationships:				
Interest rate derivatives ⁽ⁱ⁾	128	(6)	158	(6)
Foreign exchange derivatives ⁽ⁱ⁾	162	(16)	151	(2)
Total derivative financial instruments	1,390	(1,020)	1,873	(1,593)
Included within:				
Derivative financial instruments – current	927	(733)	1,291	(1,100)
Derivative financial instruments – non-current	463	(287)	582	(493)

(i) Included within these categories are £266 million (2016: £291 million) of derivatives used to hedge movements in net debt. See note 11(b).

13. DERIVATIVE FINANCIAL INSTRUMENTS

The contracts included within energy derivatives are subject to a wide range of detailed specific terms, but comprise the following general components, analysed on a net carrying value basis:

31 December	2017 £m	2016 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	(93)	(165)
North America	123	(59)
Structured gas purchase contracts	153	296
Structured gas sales contracts	(2)	(10)
Structured power purchase contracts	(16)	(45)
Other	(35)	2
Net total	130	19

14. POST RETIREMENT BENEFITS

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

(a) Summary of main post retirement benefit schemes

Name of scheme	Type of benefit	Status	Country	Number of active members as at 31 December 2017	Total membership as at 31 December 2017
Centrica Engineers Pension Scheme	Defined benefit final salary pension	Closed to new members in 2006	UK	3,425	8,592
Centrica Pension Plan	Defined benefit final salary pension	Closed to new members in 2003	UK	2,933	8,664
Centrica Pension Scheme	Defined benefit final salary pension	Closed to new members in 2003	UK	7	10,566
	Defined benefit career average pension	Closed to new members in 2008	UK	1,413	4,133
	Defined contribution pension	Open to new members	UK	14,447	21,696
Bord Gáis Energy Company Defined Benefit Pension Scheme	Defined benefit final salary pension	Closed to new members in 2014	Republic of Ireland	139	175
Bord Gáis Energy Company Defined Contribution Pension Plan	Defined contribution pension	Open to new members	Republic of Ireland	193	241
Direct Energy Marketing Limited Pension Plan	Defined benefit final salary pension	Closed to new members in 2004	Canada	8	377
Direct Energy Marketing Limited	Post retirement benefits	Closed to new members in 2012	Canada	12	260

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) form the significant majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'. The other schemes are individually, and in aggregate, immaterial.

Independent valuations

The Registered Pension Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions, which together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations were carried out at the following dates: the Registered Pension Schemes at 31 March 2015, the Bord Gáis Energy Company Defined Benefit Pension Scheme at 1 January 2017 and the Direct Energy Marketing Limited Pension Plan at 1 August 2014. These have been updated to 31 December 2017 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 (continued)

14. 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 (which were updated in 2017) 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 long-term target return of 4% per annum in nominal terms, subject to a maximum level of modelled downside risk exposure.

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 Prices Index (RPI) and the Consumer Prices Index (CPI). Therefore scheme liabilities will increase if inflation is higher than assumed, although in some cases caps are in place to limit the impact of significant movements in inflation. Furthermore, a pension increase exchange (PIE) option implemented in 2015 is available to future retirees, which gives the choice to receive a higher initial pension in return for giving up certain future increases linked to RPI, again limiting the impact of significant movements in inflation.

Longevity

The majority of the schemes' obligations are to provide benefits for the life of scheme members and their surviving spouses; therefore increases in life expectancy will result in an increase in the pension liabilities. The relative immaturity of the schemes means that there is comparatively little observable mortality data to assess the rates of mortality experienced by the schemes, and means that the schemes' liabilities will be paid over a long period of time, making it particularly difficult to predict the life expectancy of the current membership. Furthermore, pension payments are subject to inflationary increases, resulting in a higher sensitivity to changes in life expectancy.

Salary

Pension liabilities are calculated by reference to the future salaries of active members, and hence salary rises in excess of assumed increases will increase scheme liabilities. During 2011, changes were introduced to the final salary sections of CEPS and CPP such that annual increases in pensionable pay are capped to 2%, resulting in a reduction in salary risk. During 2016, a salary cap on pensionable pay for the CPS career average and CPP schemes was implemented. Both the 2011 and 2016 changes result in a reduction in salary risk.

Foreign exchange

Certain 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 policies 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 2017.

Total liabilities of the Registered Pension Schemes	2017
31 December	%
Actives – final salary – capped	28
Actives – final salary – uncapped and crystallised benefits	6
Actives – career average	7
Deferred pensioners	30
Pensioners	29
	100

14. POST RETIREMENT BENEFITS

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes have been given below:

31 December	2017 %	2016 %
Major assumptions used for the actuarial valuation		
Rate of increase in employee earnings:		
Subject to 2% cap	1.7	1.7
Other not subject to cap	2.3	3.2
Rate of increase in pensions in payment	3.1	3.2
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	2.0	2.1
In line with RPI	3.1	3.2
Discount rate	2.6	2.7

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:

31 December	Male Years	2017 Female Years	Male Years	2016 Female Years
Life expectancy at age 65 for a member				
Currently aged 65	23.0	24.6	23.2	24.9
Currently aged 45	24.5	26.1	25.0	26.8

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.

Marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Group. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

31 December	Increase/ decrease in assumption	2017 Indicative effect on scheme liabilities %	Increase/ decrease in assumption	2016 Indicative effect on scheme liabilities %
Rate of increase in employee earnings subject to 2% cap	0.25%	+/-0	0.25%	+/-1
Rate of increase in pensions in payment and deferred pensions	0.25%	+/-5	0.25%	+/-5
Discount rate	0.25%	-/+6	0.25%	-/+6
Inflation assumption	0.25%	+/-5	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	2017 £m	2016 £m
Fair value of plan assets	8,451	7,938
Present value of defined benefit obligation	(9,337)	(9,075)
Net liability recognised in the Group Balance Sheet	(886)	(1,137)
Pension liability presented in the Group Balance Sheet as:		
Retirement benefit obligations	(886)	(1,137)

The Trust Deed and Rules for the Registered Pension Schemes provide the Group with a right to a refund of surplus assets assuming the full settlement of scheme liabilities. No asset ceiling restrictions have been applied in the consolidated Financial Statements.

Notes to the Financial Statements (continued)

14. POST RETIREMENT BENEFITS

(e) Movements in the year

	Pension liabilities £m	2017 Pension assets £m	Pension liabilities £m	2016 Pension assets £m
1 January	(9,075)	7,938	(6,761)	6,642
Items included in the Group Income Statement:				
Current service cost	(125)	–	(118)	–
Contributions by employer in respect of employee salary sacrifice arrangements ⁽ⁱ⁾	(31)	–	(23)	–
Total current service cost	(156)	–	(141)	–
Past service (cost)/credit ⁽ⁱⁱ⁾	(7)	–	80	–
Interest (expense)/income	(245)	215	(265)	258
Items included in the Group Statement of Comprehensive Income:				
Returns on plan assets, excluding interest income	–	309	–	994
Actuarial gain from changes to demographic assumptions	70	–	93	–
Actuarial loss from changes in financial assumptions	(120)	–	(2,361)	–
Actuarial (loss)/gain from experience adjustments	(37)	–	100	–
Exchange adjustments	1	–	(13)	6
Items included in the Group Cash Flow Statement:				
Employer contributions	–	236	–	225
Contributions by employer in respect of employee salary sacrifice arrangements ⁽ⁱ⁾	–	31	–	23
Other movements:				
Plan participants' contributions	(2)	2	(1)	1
Benefits paid from schemes	287	(287)	202	(202)
Acquisition of businesses ⁽ⁱⁱⁱ⁾	(8)	7	–	–
Settlement	–	–	9	(9)
Transfers from provisions for other liabilities and charges	(45)	–	(17)	–
31 December	(9,337)	8,451	(9,075)	7,938

(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.

(ii) A £7 million charge was recognised in the year as a result of the curtailment for certain employees within the Registered Pension Schemes upon the combination of the Group's Exploration & Production business with Bayerngas Norge. See note 15(a).

(iii) As part of the combination of the Group's Exploration & Production business with Bayerngas Norge, a Norwegian defined benefit pension scheme was acquired. The scheme is expected to close to future accrual during 2018.

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £45 million (2016: £44 million) to operating profit in respect of defined contribution pension schemes. This included contributions of £13 million (2016: £13 million) paid via a salary sacrifice arrangement.

(f) Pension scheme assets

The market values of plan assets were:

	Quoted £m	Unquoted £m	2017 Total £m	Quoted £m	Unquoted £m	2016 Total £m
31 December						
Equities	2,121	303	2,424	1,991	307	2,298
Diversified asset funds	–	–	–	50	–	50
Corporate bonds	1,303	–	1,303	1,294	–	1,294
High-yield debt	280	1,451	1,731	309	1,296	1,605
Liability matching assets	1,663	952	2,615	1,241	844	2,085
Property	–	374	374	–	323	323
Cash pending investment	4	–	4	283	–	283
	5,371	3,080	8,451	5,168	2,770	7,938

Included within equities are no ordinary shares of Centrica plc (2016: £1 million) via pooled funds that include a benchmark allocation to UK equities. Included within corporate bonds are £1 million (2016: £1 million) of bonds issued by Centrica plc held within pooled funds over which the CCCIF has no ability to direct investment decisions. Apart from the investment in the Scottish Limited Partnerships which form part of the asset-backed contribution arrangements described in note 14(g), no direct investments are made in securities issued by Centrica plc or any of its subsidiaries or property leased to or owned by Centrica plc or any of its subsidiaries.

Included within the Group Balance Sheet within non-current securities are £94 million (2016: £85 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, £63 million (2016: £62 million) relate to this scheme.

14. POST RETIREMENT BENEFITS

(g) Pension scheme contributions

The Group estimates that it will pay £89 million of ordinary employer contributions during 2018, at an average rate of 23% of pensionable pay, together with £32 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.

During 2016, the Group finalised the outcome of the UK Registered Pension Schemes triennial review, based on the position as at 31 March 2015, with the Pension Trustees. The Group committed to additional annual cash contributions of £76 million for 14 years to fund the pension deficit which, on a Technical Provisions basis, had increased from £331 million in 2012 to £1,203 million in 2015 primarily due to a lower discount rate used following falls in market yields. The funding is provided through a new asset-backed contribution arrangement with the annual contributions commencing in 2017. The existing asset-backed contribution arrangements, £55 million in 2017, £22 million per annum in 2018-2022 and £5 million per annum in 2023-2026 into the schemes, continue unchanged. A £995 million security package over certain of the Group's assets, enforceable in the unlikely event the Group is unable to meet its obligations, was agreed in support of these arrangements.

Although the Group established a new funding arrangement during 2016 based on the position as at 31 March 2015, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The next UK Registered Pension Schemes triennial review will be based on the position as at 31 March 2018. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

Deficit payments are also being made in respect of the Direct Energy Marketing Limited Pension Plan in Canada. £2 million was paid in 2017 with further annual contributions of £1 million to be paid in 2018 and 2019.

15. ACQUISITIONS AND DISPOSALS

(a) 2017 business combinations

This section details business combinations made by the Group. During the year, the significant acquisitions were of Bayerngas Norge which was combined with the Group's Exploration & Production business in a newly formed business, Spirit Energy, in which the Group has a controlling stake of 69% and REstore, a Distributed Energy & Power demand response aggregator.

The fair values of acquired assets and liabilities are provisional unless otherwise stated. The purchase price allocation exercise requires management to make subjective judgements at the time control passes to the Group.

Bayerngas Norge

Spirit Energy Limited is the newly formed business combining the Group's existing Exploration & Production business with that of Bayerngas Norge AS. This transaction was completed on 8 December 2017 with the Group owning 69% of Spirit Energy and Bayerngas Norge's former shareholders owning 31%. The formation of Spirit Energy creates a strong and sustainable Exploration & Production business across the UK, Norway, the Netherlands and Denmark. It combines the Group's cash generative and relatively near term production profile with Bayerngas Norge's more recently on-stream producing assets and development profile. The new business will invest in the range of £400-600 million per annum to deliver sustainable medium term production of 45-55 mmboe. The consideration for the acquisition is the 31% share of the value of the combined Exploration & Production business of Spirit Energy attributable to the non-controlling interest that is provided in return for the Bayerngas Norge assets. This value includes cash, the value of indemnities provided by both parties and promises to pay further cash to fund net decommissioning liabilities of certain gas and oil fields. £102 million of goodwill was recognised on acquisition which predominately relates to goodwill in relation to the deferred tax liabilities recognised on acquisition. None of the goodwill is tax deductible.

REstore

On 3 November 2017, the Group acquired 100% of REstore NV's demand response business for cash consideration of £62 million. REstore provides key capabilities in energy optimisation and provides over 850MW of flexible power capacity to grid operators. This power is aggregated from a 2.2GW flexible portfolio of industrial and commercial customers across Belgium, the UK, France and Germany, and generates value for businesses through ancillary services including frequency response and capacity markets. The company's software and international patents are currently used by over 150 of Europe's largest energy users. The business is a strong fit with the DE&P business model and provides immediate capability to the division in terms of energy insight, asset optimisation and energy solutions to large energy users.

For this acquisition, the majority of the value is recognised as goodwill, which is reflective of the enhanced synergies, geographical presence, the assembled workforce and new and distinct capability in demand side response and management of battery equipment using a world class technology platform. In addition, the existing order book and future margins on renewed contracts are both captured in the customer intangible asset. £53 million of goodwill was recognised on acquisition, none of which is tax deductible.

REstore reported under Belgian GAAP. Upon review of Belgian GAAP versus IFRS no material accounting policy alignments have been identified.

Notes to the Financial Statements (continued)

15. ACQUISITIONS AND DISPOSALS

Provisional fair value of the identifiable acquired assets and liabilities

	Bayerngas Norge £m	REstore £m	Total £m
Balance Sheet items			
Other intangible assets	42	13	55
Property, plant and equipment	761	3	764
Other non-current assets	107	–	107
Current assets (including £81 million of cash and cash equivalents)	134	4	138
Current liabilities (including £66 million of borrowings)	(134)	(8)	(142)
Non-current liabilities	(267)	(3)	(270)
Net identifiable assets	643	9	652
Goodwill	102	53	155
Net assets acquired	745	62	807
Consideration comprises:			
Cash consideration	–	62	62
31% share of Spirit Energy business ⁽ⁱ⁾	745	–	745
Total consideration	745	62	807
Income Statement items			
Revenue recognised since the acquisition date in the Group Income Statement ⁽ⁱⁱ⁾	33	2	35
Profit/(loss) since the acquisition date in the Group Income Statement ⁽ⁱⁱ⁾	4	(1)	3

(i) This has been recorded as a non-controlling interest of £721 million and a £24 million merger reserve.

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

Other acquisitions in the year, including Rokitt Inc., were immaterial and resulted in no goodwill being recognised.

Acquisition-related costs have been charged to 'operating costs before exceptional items' in the Group Income Statement for an aggregated amount of £16 million.

Pro forma information

The pro forma consolidated results of the Group, assuming the acquisitions had been made at the beginning of the year, would show revenue of £28,263 million (compared to reported revenue of £28,023 million) and profit after taxation before exceptional items and certain re-measurements of £702 million (compared to reported profit after taxation of £710 million). This pro forma information includes the revenue and profits/losses made by the acquired businesses between the beginning of the financial year and the date of the acquisition, without accounting policy alignments and/or the impact of the fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

(b) 2016 business combinations – measurement period adjustments

During the year, there have been no material updates to the fair value of assets and liabilities recognised for businesses acquired in 2016. Goodwill in respect of these acquisitions decreased by £1 million.

(c) Assets and liabilities of disposal groups classified as held for sale

Assets and associated liabilities that are expected to be recovered principally through a sale have been classified as held for sale and are presented separately on the face of the Group Balance Sheet.

There were no disposal groups held for sale as at 31 December 2017, with items previously classified as held for sale at 31 December 2016 (Trinidad and Tobago gas assets and Lincs Wind Farm) and 30 June 2017 (Canadian Exploration & Production and UK gas-fired power stations) disposed of during the period.

15. ACQUISITIONS AND DISPOSALS

(d) Disposals

During the year, the Group sold its interest in the Lincs Wind Farm, Langage and South Humber power stations, Trinidad and Tobago gas assets and the Canadian Exploration & Production business. This note details the consideration received, the assets and liabilities disposed of and the profit/(loss) before and after tax arising on disposal.

Date of disposal	17 February 2017	27 May 2017	31 August 2017	29 September 2017
Business/assets disposed of by the Group	Lincs Wind Farm	Trinidad and Tobago gas assets	Langage and Humber gas fired power stations and King's Lynn new build development	Canadian exploration and production
Sold to	UK Green Investment Bank	Shell Exploration and Production	EP UK Investments Limited	MIE Holding Corporation, The Can-China Global Resource Fund and Mercuria
	£m	£m	£m	£m
Held within disposal group:				
Property, plant and equipment	–	66	344	789
Intangible assets	–	–	–	111
Interests in joint ventures (including shareholder loans)	168	–	–	–
Other assets (including cash of £20 million)	–	6	21	54
Current liabilities	–	–	(34)	(25)
Non-current provisions and other liabilities and charges	–	(40)	(24)	(493)
Net assets disposed of	168	32	307	436
Consideration received net of associated transaction costs ⁽ⁱ⁾	214	26	314	255
Total consideration	214	26	314	255
Recycling of share of joint venture cash flow hedging reserve on disposal	(10)	–	–	–
Recycling of foreign currency translation reserve on disposal	–	(3)	–	(5)
Profit on termination of related power purchase agreement	28	–	–	–
Transfer of non-controlling interest	–	–	–	152
(Loss)/profit on related commodity hedges	–	–	(14)	6
Profit/(loss) on disposal before tax ⁽ⁱⁱ⁾	64	(9)	(7)	(28)
Taxation	(6)	–	–	–
Profit/(loss) on disposal after tax	58	(9)	(7)	(28)

(i) Cash flows from sale of businesses in the Group Cash Flow Statement are presented net of £6 million cash outflow for Langage and Humber gas fired power stations and £6 million cash inflow for Canada Exploration and Production in respect of the settlement of related commodity hedges. For Langage and Humber there will be a further £8 million cash outflow in 2018 to reflect full settlement of the commodity hedge.

(ii) As the disposal assets were identified as areas of the business to sell as part of the strategic review in 2015, the net pre-tax profit on disposal of £20 million has been identified as an exceptional item. See note 6.

On 17 February 2017, the Group sold its 50% shareholding in Lincs Wind Farm to the UK Green Investment Bank Financial Services managed entities and the UK Green Investment Bank plc for net consideration of £214 million. None of the consideration was contingent or deferred. A pre-tax profit on disposal of £64 million was recognised as an exceptional item (see note 6). The profit on disposal included a gain of £28 million which was recognised following cessation of the associated power purchase agreement.

On 27 May 2017, the Group disposed of its Trinidad and Tobago gas assets to Shell Exploration and Production for net proceeds of US\$35 million (£26 million) recording an exceptional loss on disposal of £9 million which included the recycling of losses from the foreign currency translation reserve of £3 million (see note 6). Contingent consideration of up to US\$40 million is receivable subject to Block 22 and NCMA-4 achieving agreed development project milestones, however no amounts have been recognised in the year.

On 31 August 2017, the Group disposed of the Langage and South Humber Bank power stations and the King's Lynn B new build development to EP UK Investments Limited for net consideration after transaction costs of £314 million. A loss on disposal of £7 million was recognised as an exceptional item (see note 6). The disposal loss included a loss of £14 million in relation to the settlement of commodity related hedges.

On 29 September 2017, the Group disposed of its 60% interest in the CQ Energy Canada Partnership to a consortium comprising MIE Holding Corporation, the Can-China Global Resource Fund and Mercuria for net proceeds of C\$420 million (£255 million) which resulted in a loss on disposal of £28 million which was recognised as an exceptional item (see note 6). The loss included recycling of losses from the foreign currency translation reserve of £5 million and a gain of £6 million on settlement of related commodity hedges.

On 20 December 2017, the Group also disposed of NSIP (ETS) Limited to Antin North Sea 2 Limited for net proceeds of £15 million resulting in a profit on disposal of £12 million.

Notes to the Financial Statements (continued)

15. ACQUISITIONS AND DISPOSALS

All other disposals undertaken by the Group were immaterial, both individually and in aggregate. None of these disposals are material enough to be shown as discontinued operations on the face of the Group Income Statement as they do not represent a separate major line of business or material geographical area of operations.

16. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Commitments are not held on the Group's Balance Sheet as these are executory arrangements, and relate to amounts that we are contractually required to pay in the future as long as the other party meets its contractual obligations.

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts, where there is a right of offset with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas and other commodities that the Group is contracted to buy at estimated future prices.

On 25 March 2013, the Group 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 £3.8 billion (included in 'LNG capacity' below) between 2019 and 2039. The Group may also make up to £8.0 billion of commodity purchases based on market gas prices and foreign exchange rates as at the balance sheet date. The target date for first commercial delivery is estimated by the terminal operator as September 2019.

31 December	2017 £m	2016 (restated) (i) £m
Commitments in relation to the acquisition of property, plant and equipment:		
Development of Danish Hejre gas and oil field	219	–
Development of Norwegian Oda gas and oil field	55	79
Development of Norwegian Maria gas and oil field	31	61
Other Exploration & Production capital expenditure	162	107
Development of Kings Lynn A CCGT	50	6
Other capital expenditure	29	51
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (ii)	–	700
Renewable obligation certificates to be purchased from other parties	4,261	3,405
Other intangible assets	372	299
Other commitments:		
Commodity purchase contracts	42,324	47,836
LNG capacity	4,401	4,469
Transportation capacity	997	983
Outsourcing of services	119	111
Power station tolling fees	152	196
Smart meters	145	149
Power station operating and maintenance	23	68
Other long-term commitments	138	178
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases	388	381

(i) Commitments as at 31 December 2016 have been re-presented to be consistent with current year disclosures. In addition, £101 million of other long-term commitments have been restated to commodity purchase contracts to reflect more accurately the underlying nature of these commitments.

(ii) Following the disposal of Lincs Wind Farm Limited, the Group no longer purchases renewable obligation certificates from its joint ventures. See note 15(d).

16. COMMITMENTS AND CONTINGENCIES

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

31 December	Commodity purchase contract commitments		Total minimum lease payments under non-cancellable operating leases	
	2017 £billion	2016 (restated) (i) £billion	2017 £m	2016 £m
<1 year	11.2	11.5	120	91
1–2 years	6.0	6.6	77	78
2–3 years	4.4	4.6	46	49
3–4 years	3.7	4.2	38	38
4–5 years	3.6	3.8	30	31
>5 years	13.4	17.1	77	94
	42.3	47.8	388	381

(i) Other long term commitments of £101 million have been restated to commodity purchase contracts to reflect more accurately the underlying nature of these commitments.

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

Year ended 31 December	2017 £m	2016 £m
Minimum lease payments (net of sub-lease receipts)	90	100
Contingent rents – renewables (i)	73	68

(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 (2016: 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 securities in respect of decommissioning liabilities associated with field developments owned, or partly owned by Spirit Energy and its subsidiaries. These securities are provided to fellow partners and previous owners of these fields, who may be liable for Spirit Energy's share of the decommissioning costs, in the event of default by the Group. The most significant securities relate to the Morecambe and Statfjord fields. As at 31 December 2017, £694 million of letters of credit and on demand payment bonds have been issued in respect of decommissioning obligations included in the Group Balance Sheet.

As additional assets are developed or acquired, additional securities may be provided.

(c) Contingent liabilities

The Group has no material contingent liabilities.

17. EVENTS AFTER THE BALANCE SHEET DATE

The Group updates disclosures in light of new information being received, or a significant event occurring, in the period between 31 December 2017 and the date of this report.

Centrica Storage

On 15 January 2018, Centrica Storage was granted consent from the Oil and Gas Authority to produce indigenous gas and associated liquids from Rough, confirming transition from a storage operation into one of production on 17 January 2018.

Dividends

The Directors propose a final dividend of 8.40 pence per ordinary share (totalling £470 million) for the year ended 31 December 2017. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 14 May 2018 and, subject to approval, will be paid on 28 June 2018 to those shareholders registered on 11 May 2018.

Notes to the Financial Statements (continued)

18. SEASONALITY OF OPERATIONS

Certain activities of the Group are affected by weather and temperature conditions. As a result of this, amounts reported for the six month period ended 31 December 2017 may not be indicative of the amounts that would be reported for a full year due to seasonal fluctuations in customer demand for gas, electricity and services, the impact of weather on demand and commodity prices, market changes in commodity prices and retail tariffs.

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

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

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

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

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

Notes to the Financial Statements (Unaudited)

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

Six months ended 31 December	Notes	2017			2016		
		Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the period £m
Group revenue	21(a)	13,730	–	13,730	13,722	–	13,722
Cost of sales before exceptional items and certain re-measurements		(11,932)	–	(11,932)	(11,610)	–	(11,610)
Re-measurement of energy contracts	22(b)	–	376	376	–	89	89
Cost of sales		(11,932)	376	(11,556)	(11,610)	89	(11,521)
Gross profit		1,798	376	2,174	2,112	89	2,201
Operating costs before exceptional items		(1,382)	–	(1,382)	(1,540)	–	(1,540)
Exceptional items	22(a)	–	(553)	(553)	–	16	16
Operating costs		(1,382)	(553)	(1,935)	(1,540)	16	(1,524)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	22(b)	28	(33)	(5)	79	(36)	43
Group operating profit/(loss)	21(b)	444	(210)	234	651	69	720
Financing costs		(181)	–	(181)	(174)	–	(174)
Investment income		8	–	8	15	–	15
Net finance cost		(173)	–	(173)	(159)	–	(159)
Profit/(loss) before taxation		271	(210)	61	492	69	561
Taxation on profit/(loss)		(12)	247	235	(102)	67	(35)
Profit/(loss) for the period		259	37	296	390	136	526
Attributable to:							
Owners of the parent		249	40	289	388	136	524
Non-controlling interests		10	(3)	7	2	–	2
Earnings per ordinary share				Pence			Pence
Basic	23			5.1			9.4
Diluted	23			5.1			9.3

Notes to the Financial Statements (Unaudited) (continued)**20. GROUP CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER**

Six months ended 31 December	2017 £m	2016 £m
Group operating profit including share of results of joint ventures and associates	234	720
Less share of loss/(profit) of joint ventures and associates, net of interest and taxation	5	(43)
Group operating profit before share of results of joint ventures and associates	239	677
Add back/(deduct):		
Depreciation, amortisation, write-downs, impairments and write-backs	923	380
Loss on disposals	19	7
(Decrease)/increase in provisions	(189)	8
Defined benefit pension service cost and contributions	(40)	(100)
Employee share scheme costs	23	20
Unrealised gains arising from re-measurement of energy contracts	(291)	(19)
Operating cash flows before movements in working capital	684	973
Increase in inventories	(75)	(64)
Increase in trade and other receivables	(461)	(515)
Increase in trade and other payables	747	799
Operating cash flows before payments relating to taxes and exceptional charges	895	1,193
Taxes paid	(78)	(65)
Payments relating to exceptional charges	(86)	(100)
Net cash flow from operating activities	731	1,028
Purchase of businesses, net of cash acquired	20	(203)
Sale of businesses	565	11
Purchase of property, plant and equipment and intangible assets	(500)	(405)
Sale of property, plant and equipment and intangible assets	3	9
Investments in joint ventures and associates	(2)	(4)
Dividends received from joint ventures and associates	38	68
Disposal of interests in joint ventures and associates	(1)	(3)
Interest received	7	35
Sale/(Purchase) of securities	4	(3)
Net cash flow from investing activities	134	(495)
Payments for own shares	-	(10)
Distribution to non-controlling interests	(2)	(10)
Financing interest paid	(175)	(93)
Repayment of borrowings and finance leases	(93)	(487)
Equity dividends paid	(205)	(167)
Net cash flow from financing activities	(475)	(767)
Net increase/(decrease) in cash and cash equivalents	390	(234)
Cash and cash equivalents including overdrafts at 1 July	2,360	2,166
Effect of foreign exchange rate changes	(13)	28
Cash and cash equivalents including overdrafts at 31 December	2,737	1,960
Included in the following line of the Group Balance Sheet:		
Cash and cash equivalents	2,864	2,036
Overdrafts included within current bank overdrafts, loans and other borrowings	(127)	(76)

21. SEGMENTAL ANALYSIS FOR THE SIX MONTHS ENDED 31 DECEMBER

(a) Revenue

Six months ended 31 December	2017			2016		
	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m	Gross segment revenue £m	Less inter-segment revenue £m	Group revenue £m
Centrica Consumer						
UK Home	4,001	(3)	3,998	4,186	(4)	4,182
Ireland	405	–	405	379	–	379
North America Home	1,276	–	1,276	1,460	–	1,460
Connected Home	26	(9)	17	21	(6)	15
	5,708	(12)	5,696	6,046	(10)	6,036
Centrica Business						
UK Business	878	–	878	937	(1)	936
North America Business	3,979	–	3,979	4,094	–	4,094
Distributed Energy & Power	87	(3)	84	94	(1)	93
Energy Marketing & Trading	2,500	(130)	2,370	1,947	(64)	1,883
Central Power Generation	292	(93)	199	355	(116)	239
	7,736	(226)	7,510	7,427	(182)	7,245
Exploration & Production	804	(406)	398	853	(422)	431
Centrica Storage	136	(10)	126	11	(1)	10
	14,384	(654)	13,730	14,337	(615)	13,722

Notes to the Financial Statements (Unaudited) (continued)

21. SEGMENTAL ANALYSIS FOR THE SIX MONTHS ENDED 31 DECEMBER

(b) Operating profit before and after tax

Six months ended 31 December	Adjusted operating profit/(loss)		Adjusted operating profit/(loss)	
	2017	2016	2017	2016
	£m	£m	£m	£m
Centrica Consumer				
UK Home	330	175	275	166
Ireland	14	22	11	19
North America Home	59	60	37	41
Connected Home	(51)	(27)	(37)	(24)
	352	230	286	202
Centrica Business				
UK Business	4	19	5	17
North America Business	(41)	159	(24)	107
Distributed Energy & Power	(34)	(15)	(27)	(12)
Energy Marketing & Trading	(1)	175	2	134
Central Power Generation	11	51	30	46
	(61)	389	(14)	292
Exploration & Production	85	99	6	29
Centrica Storage	60	(56)	26	(50)
Adjusted operating profit	436	662	304	473
Share of joint ventures'/associates' interest and taxation	8	(11)		
Operating profit before exceptional items and certain re-measurements	444	651		
Exceptional items (note 22)	(553)	16		
Certain re-measurements included within gross profit (note 22)	376	89		
Certain re-measurements of associates' energy contracts (net of taxation) (note 22)	(33)	(36)		
Operating profit after exceptional items and certain re-measurements	234	720		

Six months ended 31 December	2017	2016
	£m	£m
Adjusted operating profit after taxation ⁽ⁱ⁾	304	473
Impact of changes to corporate tax rates ⁽ⁱⁱ⁾	34	30
Corporate and other taxation, and interest (net of taxation) ⁽ⁱⁱⁱ⁾	(79)	(113)
Business performance profit for the period	259	390
Exceptional items and certain re-measurements (net of taxation) (note 22)	37	136
Statutory profit for the period	296	526

(i) Segment adjusted operating profit after taxation includes a profit of £3 million (2016: £4 million) attributable to non-controlling interests.

(ii) The 2017 amount relates to a change to the US tax rate; the 2016 amount related to changes to UK tax rates. The amounts include nil (2016: £9 million) relating to equity accounted interests.

(iii) Includes joint ventures'/associates' interest, net of associated taxation.

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

(a) Exceptional items

Six months ended 31 December	2017 £m	2016 (restated) (i) £m
(Impairment)/write-back of retained Exploration & Production assets	(408)	79
Write-back of retained Central Power Generation assets	–	26
Net loss on disposal of Central Power Generation businesses and assets	(7)	–
(Loss)/net gain on disposal of Exploration & Production businesses and material assets	(28)	55
Loss on disposal of North America Home businesses and assets	–	(22)
Onerous power procurement contract release	–	17
Restructuring costs	(54)	(139)
Business change costs	(56)	–
Exceptional items included within Group operating profit	(553)	16
Net taxation on exceptional items	345	–
Effect of change in UK upstream tax rates	–	74
Net exceptional items after taxation	(208)	90

(i) Prior year comparatives have been re-presented so that associated impairments and gains or losses on disposal are presented on a consistent basis with the current year classification.

(b) Certain re-measurements

Six months ended 31 December	2017 £m	2016 £m
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts	56	220
Net gains/(losses) arising on market price movements and new contracts	320	(131)
Net re-measurements included within gross profit	376	89
Net losses arising on re-measurement of associates' energy contracts (net of taxation)	(33)	(36)
Net re-measurements included within Group operating profit	343	53
Taxation on certain re-measurements	(98)	(7)
Net re-measurements after taxation	245	46

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

Six months ended 31 December	£m	2017 Pence per ordinary share	£m	2016 Pence per ordinary share
Earnings – basic	289	5.1	524	9.4
Net exceptional items after taxation (note 22) ⁽ⁱ⁾	206	3.7	(90)	(1.6)
Certain re-measurement (gains)/losses after taxation (note 22) ⁽ⁱ⁾	(246)	(4.4)	(46)	(0.8)
Earnings – adjusted basic	249	4.4	388	7.0
Earnings – diluted	289	5.1	524	9.3
Earnings – adjusted diluted	249	4.4	388	6.9

(i) Net exceptional loss after taxation of £208 million loss (2016: £90 million gain) is reduced by £2 million (2016: nil) 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. Similarly, certain re-measurement gains of £245 million (2016: £46 million) are increased by £1 million (2016: nil) to reflect the share of net re-measurement losses attributable to non-controlling interests.

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 Gaffney, Cline & Associates 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.

The principal fields in Europe are Kvitebjørn, Statfjord, Hejre, Ivar Aasen, Cygnus, Maria, South and North Morecambe, Rhyl and Chiswick. The principal field in Centrica Storage is the Rough field. The European 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.

Estimated net 2P reserves of gas (billion cubic feet)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
1 January 2017	1,225	821	52	2,098	167	2,265
Revisions of previous estimates ^(iv)	(8)	–	–	(8)	–	(8)
Disposals of reserves in place ^(v)	–	(773)	(42)	(815)	–	(815)
Extensions, discoveries and other additions	49	–	–	49	–	49
Spirit Energy transaction ^(vi) :						
Acquisition of 69% share of Bayerngas Norge	129	–	–	129	–	129
Disposal of 31% share of reserves in place	(341)	–	–	(341)	–	(341)
Production ^(vii)	(175)	(48)	(10)	(233)	(25)	(258)
31 December 2017	879	–	–	879	142	1,021

Estimated net 2P reserves of liquids (million barrels)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
1 January 2017	106	18	–	124	–	124
Revisions of previous estimates ^(iv)	3	–	–	3	–	3
Disposals of reserves in place ^(v)	–	(17)	–	(17)	–	(17)
Extensions, discoveries and other additions	7	–	–	7	–	7
Spirit Energy transaction ^(vi) :						
Acquisition of 69% share of Bayerngas Norge	33	–	–	33	–	33
Disposal of 31% share of reserves in place	(32)	–	–	(32)	–	(32)
Production ^(vii)	(12)	(1)	–	(13)	–	(13)
31 December 2017	105	–	–	105	–	105

Estimated net 2P reserves (million barrels of oil equivalent)	Europe (i)	Canada (ii)	Trinidad and Tobago (iii)	Exploration & Production	Centrica Storage	Total
31 December 2017 ^(viii)	251	–	–	251	24	275

(i) Spirit Energy is a newly formed business combining the Group's existing Exploration & Production business with that of Bayerngas Norge AS. This transaction was completed on 8 December 2017, with the Group owning 69% of Spirit Energy. Europe reserves movements represent Centrica's 100% ownership in Exploration & Production business up to the transaction date. From 8 December 2017 to 31 December 2017 the movements represent Centrica's 69% interest.

(ii) On 29 September 2017, the Group disposed of its 60% interest in the natural gas and liquid assets owned by the CQ Energy Canada Partnership.

(iii) On 27 May 2017, the Group disposed of its Trinidad and Tobago gas assets.

(iv) Revision of previous estimates include those associated with North and South Morecambe, Galleon, York, West Brae and Alba areas in Europe.

(v) Reflects the disposal of interests in the CQ Energy Canada Partnership and Trinidad and Tobago gas and liquid assets.

(vi) Represents Centrica's change in reserves following the Spirit Energy transaction detailed in (i) above.

(vii) Represents total sales volumes of gas and oil produced from the Group's reserves.

(viii) Includes the total of estimated gas and liquids reserves at 31 December 2017 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Ofgem Consolidated Segmental Statement

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

The following is an extract of the audited CSS and is prepared in accordance with Standard Condition 19A of the Electricity and Gas Supply Licences and Standard Condition 16B of the Electricity Generation Licences. This extract should be read in conjunction with the full CSS which includes the Statement, the audit opinion and the basis of preparation. These are available on www.centrica.com/2017-prelims.

Ofgem Consolidated Segmental Statement

Year ended 31 December 2017

	Unit	Electricity Generation			Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear (i)	Thermal (i)	Renewables		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	548.1	367.2	-	915.3	3,100.5	1,379.6	3,972.8	419.5	8,872.4
Sales of electricity & gas	£m	537.1	340.4	-	877.5	3,009.7	1,379.6	3,891.8	419.5	8,700.6
Other revenue	£m	11.0	26.8	-	37.8	90.8	-	81.0	-	171.8
Total operating costs	£m	(343.5)	(394.9)	-	(738.4)	(3,095.7)	(1,386.0)	(3,296.0)	(393.5)	(8,171.2)
Direct fuel costs	£m	(101.5)	(208.0)	-	(309.5)	(1,065.8)	(574.3)	(1,448.7)	(209.4)	(3,298.2)
Direct costs	£m	(216.7)	(153.0)	-	(369.7)	(1,472.0)	(662.4)	(1,117.1)	(113.7)	(3,365.2)
Network costs	£m	(43.7)	(29.8)	-	(73.5)	(871.2)	(349.9)	(1,027.8)	(88.7)	(2,337.6)
Environmental and social obligation costs	£m	-	(66.0)	-	(66.0)	(559.1)	(286.3)	(48.8)	-	(894.2)
Other direct costs	£m	(173.0)	(57.2)	-	(230.2)	(41.7)	(26.2)	(40.5)	(25.0)	(133.4)
Indirect costs	£m	(25.3)	(33.9)	-	(59.2)	(557.9)	(149.3)	(730.2)	(70.4)	(1,507.8)
WACOF/E/G	£/MWh, P/th	(7.9)	(36.5)	-	N/A	(51.5)	(50.8)	(45.3)	(48.0)	N/A
EBITDA	£m	204.6	(27.7)	-	176.9	4.8	(6.4)	676.8	26.0	701.2
DA	£m	(142.5)	(10.5)	-	(153.0)	(51.4)	(9.7)	(63.8)	(4.4)	(129.3)
EBIT	£m	62.1	(38.2)	-	23.9	(46.6)	(16.1)	613.0	21.6	571.9
Volume	TWh, MThms	12.8	7.5	-	N/A	20.7	11.3	3,200.5	436.6	N/A
Average customer numbers/sites	'000s	N/A	N/A	N/A	N/A	6,113.2	474.7	7,588.3	211.9	N/A

Supply EBIT	margin	(1.5)%	(1.2)%	15.4%	5.1%	6.4%
Supply PAT	£m	(38.5)	(12.0)	503.9	18.5	471.9
Supply PAT	margin	(1.2)%	(0.9)%	12.7%	4.4%	5.3%

2016 Summarised CSS

Year ended 31 December 2016

	Unit	Electricity Generation			Aggregate Generation Business	Electricity Supply		Gas Supply		Aggregate Supply Business
		Nuclear (i)	Thermal (i)	Renewables		Domestic	Non-Domestic	Domestic	Non-Domestic	
Total revenue	£m	576.1	532.0	72.2	1,180.3	3,208.7	1,459.1	4,498.5	538.8	9,705.1
EBIT	£m	112.2	(50.6)	10.2	71.8	(125.9)	1.9	678.9	47.9	602.8

Supply EBIT	margin	(3.9)%	0.1%	15.1%	8.9%	6.2%
Supply PAT	£m	(105.3)	1.6	567.7	40.5	504.5
Supply PAT	margin	(3.3)%	0.1%	12.6%	7.5%	5.2%

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

Additional Information – Explanatory Notes (Unaudited)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Centrica's 2017 Preliminary Results include a number of non-GAAP measures. These measures are chosen as they provide additional useful information on business performance and underlying trends. They are also used to measure the Group's performance against its strategic financial framework. They are not however, defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies. Where possible they have been reconciled to the statutory equivalents from the primary statements (Group Income Statement ('I/S'), Group Balance Sheet ('B/S'), Group Cash Flow Statement ('C/F')) or the notes to the Financial Statements.

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

EBITDA

EBITDA is the profit measure that provides the bridge between the Income Statement and the Group's key cash metrics.

Year ended 31 December		2017 £m	2016 £m	Change
Group operating profit	I/S	486	2,486	
Exceptional items and certain re-measurements before taxation	I/S	759	(1,019)	
Share of profits of joint ventures and associates, net of interest and taxation	I/S	(51)	(130)	
Depreciation and impairments of property, plant and equipment	5(d)	673	737	
Amortisation, write-downs and impairments of intangibles	5(d)	271	288	
Impairment of joint ventures and associates	12(c)	4	3	
EBITDA		2,142	2,365	(9%)

Underlying adjusted operating cash flow

Adjusted operating cash flow is the key metric used to assess the cash generating performance of the Group. Underlying adjusted operating cash flow makes further adjustments for foreign exchange and the commodity price movements that most impact the Group, which are outside its control, along with other material one-off items, to provide a comparable year on year measure of cash generation that more closely reflects business performance.

The calculation has been amended to make adjustments to rebase adjusted operating cash flow to reflect the prevailing foreign exchange and commodity prices in 2015 rather than those in the current reporting period. This provides a fixed reference point and prevents the need to continually recalculate the comparative periods and allows management to measure underlying adjusted operating cash flow growth since 2015, the announcement of the Strategic Review.

Year ended 31 December		2017 £m	2016 (restated) £m	Change	2015 (restated) £m
Adjusted operating cash flow	5(f)	2,069	2,686		2,253
Commodity price – E&P and Nuclear ⁽ⁱ⁾		(100)	(46)		(331)
Foreign exchange movements ⁽ⁱⁱ⁾		27	11		–
UK Business working capital impact		–	(357)		102
Underlying adjusted operating cash flow		1,996	2,294	(13%)	2,024

(i) The commodity price adjustment has been calculated by applying the average commodity price in 2015 to production and generation volumes for 2017 and 2016 net of taxation. In 2015, the commodity price has been adjusted to exclude the impacts of hedging prior to 2015 to ensure the operating cash flow reflects the prevailing average commodity price in 2015.

(ii) The foreign exchange movement has been calculated by applying the average 2015 rate to the 2017 and 2016 adjusted operating cash flow net of taxation of entities with functional currencies other than GBP.

Underlying adjusted operating cash flow is adjusted operating cash flow as defined in note 2 and reconciled in note 5(f). It has been adjusted for the impacts of commodity price movements on E&P and nuclear assets and foreign exchange movements. It has also been adjusted for one-off working capital movements in UK Business. This follows billing performance issues after the implementation of a new system in 2014, impacting the Group's ability to collect cash from customers and therefore its adjusted operating cash flow. As a consequence, the working capital movement for UK Business has been removed from underlying adjusted operating cash flow.

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

Group net investment

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

Year ended 31 December		2017 £m	2016 £m	Change
Capital expenditure (including small acquisitions) ⁽ⁱ⁾		943	842	12%
Material acquisitions (>£100 million) ⁽ⁱⁱ⁾		–	322	(100%)
Cash acquired through Spirit Energy transaction ⁽ⁱⁱⁱ⁾		(78)	–	nm
Net disposals ^(iv)		(819)	(125)	(555%)
Group net investment		46	1,039	(96%)
Dividends received from joint ventures and associates	C/F	(58)	(117)	
Interest received	C/F	(22)	(91)	
Purchase/(sale) of securities	C/F	2	(28)	
Net cash flow from investing activities	C/F	(32)	803	

(i) Capital expenditure is the net cash flow on capital expenditure and purchases of businesses (less than £100 million). See table (a).

(ii) Material acquisitions is the net cash flow on acquisitions of businesses over £100 million. See table (b).

(iii) Cash acquired through the Spirit Energy transaction has been excluded since this is an unusual acquisition whereby there was no cash consideration and hence this has been separately highlighted in the Group net investment analysis.

(iv) Net disposals is the net cash flow from sales of businesses, property, plant and equipment and intangible assets, net of investments in joint ventures and associates. See table (c).

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

(a) Capital expenditure (including small acquisitions)

Year ended 31 December		2017 £m	2016 £m	Change
Purchase of property, plant and equipment and intangible assets	C/F	882	829	
Purchase of businesses, net of cash acquired	C/F	(17)	335	
Less: material acquisitions (>£100 million)		–	(322)	
Less: cash acquired through Spirit Energy transaction ⁽ⁱ⁾		78	–	
Capital expenditure (including small acquisitions)		943	842	12%

(i) Cash acquired through the Spirit Energy transaction has been excluded since this is an unusual acquisition whereby there was no cash consideration and hence this has been separately highlighted in the Group net investment analysis.

(b) Material acquisitions (>£100 million)

Year ended 31 December		2017 £m	2016 £m	Change
Purchase of businesses, net of cash acquired	C/F	(17)	335	
Less: non-material acquisitions (<£100 million) ⁽ⁱ⁾		17	(13)	
Material acquisitions (>£100 million) ⁽ⁱⁱ⁾		–	322	(100%)

(i) Cash consideration in 2017 predominantly relates to REstore and Bayemgas Norge (2016: FlowGem).

(ii) Cash consideration for ENER-G Cogen and Neas Energy.

(c) Net disposals

Year ended 31 December		2017 £m	2016 £m	Change
Disposal of interests in joint ventures and associates	C/F	(218)	(94)	
Sale of businesses	C/F	(593)	(35)	
Sale of property, plant and equipment and intangible assets	C/F	(14)	(13)	
Investments in joint ventures and associates	C/F	6	17	
Net disposals		(819)	(125)	(555%)

Additional Information – Explanatory Notes (Unaudited) (continued)

DEFINITIONS AND RECONCILIATION OF ADJUSTED PERFORMANCE MEASURES

E&P free cash flow

Free cash flow is used as an additional cash flow metric for the E&P business due to its asset intensive nature. This metric provides a measure of the cash generating performance of the E&P business, taking account of its investment activity.

Year ended 31 December		2017 £m	2016 £m	Change
E&P adjusted operating cash flow	5(f)	448	655	
Capital expenditure (including small acquisitions)		(439)	(518)	
Cash acquired through Spirit Energy transaction		78	–	
Net disposals ⁽ⁱ⁾		289	29	
Free cash flow		376	166	127%

(i) 2017 net disposals include Trinidad and Tobago, Canada and NSIP (ETS) Limited (see note 15(d)) and other small E&P asset disposals. 2016 net disposals include Skene and Buckland, Trinidad and Tobago Blocks 1a and 1b, and other small E&P asset disposals.

E&P free cash flow is E&P's adjusted operating cash flow, as defined in note 2 and reconciled in note 5(f), less the business's capital expenditure and net disposals as defined above. See the definition of Group net investment for further details on the definition of 'Capital expenditure (including small acquisitions)' and 'Net disposals'.

Return on average capital employed (ROACE)

Post-tax ROACE is one of the key performance metrics in the financial framework of the Group and represents the return the Group makes from capital employed in its wholly owned assets and its investments in joint ventures and associates.

Year ended 31 December		2017 £m	2016 £m	Change
Adjusted operating profit	5(c)	1,252	1,515	
Share of joint ventures'/associates' interest and taxation	12(a)	(7)	(48)	
Taxation on profit – business performance	V/S	(191)	(282)	
Exclude taxation on interest		(81)	(120)	
Return attributable to non-controlling interests	5(c)	(7)	5	
Return		966	1,070	
Net assets	B/S	3,428	2,844	
Less: non-controlling interests	B/S	(729)	(178)	
Less: net retirement benefit obligations	14(d)	886	1,137	
Less: net cash and cash equivalents, bank overdrafts, loans and other borrowings, securities and cash posted/(received) as collateral	11(b)	2,862	3,764	
Less: derivative financial instruments	13	(370)	(280)	
Less: deferred tax (assets)/liabilities associated with retirement benefit obligations and derivative financial instruments		18	23	
Effect of averaging and other adjustments		780	(582)	
Average capital employed		6,875	6,728	
ROACE		14%	16%	(2ppt)

Average capital employed takes the Group's net assets excluding net debt and deducts the net retirement benefit obligation and other derivative financial instruments (together with their associated deferred tax balances) because these represent unrealised positions and therefore do not reflect true capital employed. They are also subject to market driven volatility which could materially distort the ROACE calculation.

Disclosures

Disclaimers

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

This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

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

For further information

Centrica will hold its 2017 Preliminary Results presentation for analysts and institutional investors at 9.30am (UK) on Thursday 22 February 2018. There will be a live audio webcast of the presentation and slides. Please register for the webcast at <http://webcasts.centrica.com/centrica082>.

A live audio broadcast of the presentation will be available by dialling in using the following numbers. Please use the number for your dialling location:

United Kingdom: 0800 640 6441

United Kingdom (Local): 0203 936 2999

All other locations: +44 20 3936 2999

Please use participant access code: 77 54 27

An archived webcast and full transcript of the presentation and the question and answer session will be available on the Centrica website at <https://www.centrica.com/2017-prelims> on Monday 26 February 2018.

Enquiries

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Financial calendar

Trading Update	14 May 2018
Annual General Meeting	14 May 2018
Ex-dividend date for 2017 final dividend	10 May 2018
Record date for 2017 final dividend	11 May 2018
Final date to elect to participate in 2017 final scrip dividend programme	7 June 2018
2017 final dividend payment date	28 June 2018
2018 Interim Results announcement	31 July 2018

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