

Registration number: 04262250

# Centrica PB Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

WEDNESDAY



\*L6DG20AA\*

LD4

23/08/2017

#31

COMPANIES HOUSE

## **Centrica PB Limited**

### **Contents**

	<b>Page(s)</b>
Strategic Report	1 to 2
Directors' Report	3 to 5
Independent Auditors' Report	6 to 7
Income Statement	8
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 to 27

## **Centrica PB Limited**

### **Strategic Report for the Year Ended 31 December 2016**

The Directors present the Strategic Report for the year ended 31 December 2016.

#### **Review of the business**

The Company operates a 360MW gas-fired open cycle gas turbine generating station in Peterborough ("Peterborough power station"). During 2016, the Company principally sold power through a Short-Term Operating Reserve (STOR) contract with National Grid which means that it can be called on at short notice to balance the network. The site has STOR contracts out to the end of March 2019.

Baseload power generation has still predominantly been provided by coal while installed capacity from renewable sources has also remained, leaving gas to operate predominantly in peak periods of demand. The Government plans to close all coal-fired power stations by 2025 and restrict use by 2023, tightening the system reserve margins and increasing the risk to future security of electricity supplies. The Government has now conducted four Capacity Market Auctions aimed at addressing these concerns, including bringing forward delivery of the Capacity Market to October 2017. Peterborough was successful in obtaining a capacity market agreement for 2017/18 but has not been successful in securing a capacity market agreement for any other years.

#### **Capacity Tolling Arrangement**

The Company is responsible for the safe and reliable operation of the Peterborough power station. The Company utilises the expertise within the wider Centrica plc group to optimise the value of the station through its trading operation. Accordingly, the Company has a capacity tolling arrangement with British Gas Trading Limited ("BGTL" - a fellow subsidiary of Centrica Plc) to provide a route to market and facilitate this optimisation. The agreement requires the Company to make generating capacity available to BGTL, where not already committed under a STOR agreement, and subsequently to deliver electricity in accordance with BGTL's nominations. BGTL must provide the gas for generation. Capacity market revenue from capacity market agreements will be retained by the Company. This arrangement is not considered a lease and income under the contract is recognised as earned.

No revenue was received under this arrangement in 2016 (2015: £Nil).

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101').

#### **Principal risks and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Centrica plc Group ("the Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company are discussed on pages 56-64 of the 2016 Centrica plc Annual Report and Accounts which does not form part of this report.

#### **Exit from the European Union**

The UK referendum vote in June to leave the European Union has added to the uncertainties faced by the business. However, we believe that the direct impact on the business of these events is limited in the short-term. Many details of the implementation process remain unclear. Extricating from the European Union treaties is a task of immense complexity but with that being said, the business is well-positioned to manage any market impacts. There are also potential tax consequences of the withdrawal agreement which we will continue to reassess (at each reporting date) to ensure our tax provisions reflect the most likely outcome following the withdrawal.

#### **Key performance indicators (KPIs)**

The Directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy. The development and performance of the Group, which includes the Company, are discussed on pages 18-19 of the Centrica plc Annual Report and Accounts which does not form part of this report.

## **Centrica PB Limited**

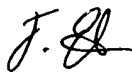
### **Strategic Report for the Year Ended 31 December 2016 (continued)**

#### **Future developments**

The Group is currently implementing the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of Centrica PB Limited.

There are no plans to change the nature of the activities in the foreseeable future.

Approved by the Board on 18 August 2017 and signed on its behalf by:

 J. ELLIOTT

For and on behalf of Centrica Secretaries Limited  
**Company Secretary**

Company registered in England and Wales, No. 04262250  
Registered office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

## **Centrica PB Limited**

### **Directors' Report for the Year Ended 31 December 2016**

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

#### **Directors of the Company**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Richard McCord

Mark Futyan

Peter Koch de Gooreynd (resigned 5 September 2016)

Mark Taylor (appointed 4 October 2016)

#### **Results and dividends**

The results of the Company are set out on page 8. The profit for the financial year ended 31 December 2016 is £1,424,705 (2015: loss £4,557,000). Centrica PB Limited has become profitable due to increased STOR availability rates. No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2015: £Nil).

#### **Objectives and policies**

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business:

- Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Credit risk is predominantly limited to exposures with other Group undertakings.
- Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly.
- Liquidity risk is managed through funding arrangements with Group undertakings.

The Company did not take part in hedging of any kind (2015: £Nil). The Company would hedge foreign currency risk if the need arose.

#### **Future developments**

Future developments are discussed in the Strategic Report on page 2.

#### **Going concern**

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were approved.

#### **Directors' and officers' liabilities**

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

## **Centrica PB Limited**

### **Directors' Report for the Year Ended 31 December 2016 (continued)**

#### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Disclosure of information to the auditors**

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Reappointment of auditors**

Following a rigorous selection process by the Audit Committee of Centrica plc, Deloitte LLP was selected as the Group's external auditors for the financial year commencing from 1 January 2017. Consequently, PricewaterhouseCoopers LLP will remain auditors of Centrica PB Limited until the formal resignation process has been completed later in 2017, after which Deloitte LLP will be appointed as auditors of Centrica PB Limited.

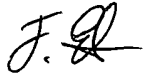
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office, until the formal resignation process has been completed.

**Centrica PB Limited**

**Directors' Report for the Year Ended 31 December 2016 (continued)**

**Statement of Directors' Responsibilities (continued)**

Approved by the Board on 18 August 2017 and signed on its behalf by:

 J. ELLIOT

By order of the Board for and on behalf of Centrica Secretaries Limited  
**Company Secretary**

Company registered in England and Wales, No. 04262250  
Registered office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

## **Centrica PB Limited**

### **Independent Auditors' Report to the Members of Centrica PB Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, Centrica PB Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### ***What we have audited***

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

##### **Other matters on which we are required to report by exception**

###### ***Adequacy of accounting records and information and explanations received***

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



## Centrica PB Limited

### Independent Auditors' Report to the Members of Centrica PB Limited (continued)

#### *Directors' remuneration*

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

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities (set out on page 4), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

##### **What an audit of financial statements involves**

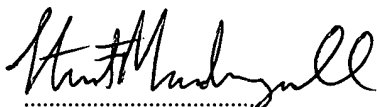
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

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

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



Stuart Macdougall (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

18 August 2017

## Centrica PB Limited

### Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	4	9,068	5,367
Cost of sales	5	<u>(7,188)</u>	<u>(6,762)</u>
Gross profit/(loss)		<u>1,880</u>	<u>(1,395)</u>
Operating costs before exceptional items	5	(1,411)	(4,326)
Exceptional items - rates rebate	7	<u>812</u>	<u>-</u>
Operating costs		(599)	(4,326)
Other income	8	<u>-</u>	<u>90</u>
Operating profit/(loss)		<u>1,281</u>	<u>(5,631)</u>
Finance income	9	529	906
Finance costs	9	<u>(357)</u>	<u>(632)</u>
Net finance income		<u>172</u>	<u>274</u>
Profit/(loss) before income tax		1,453	(5,357)
Income tax (expense)/credit	13	<u>(28)</u>	<u>800</u>
Profit/(loss) for the financial year		<u>1,425</u>	<u>(4,557)</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

**Centrica PB Limited**

**Statement of Comprehensive Income for the Year Ended 31 December 2016**

	<b>2016</b> <b>£ 000</b>	<b>2015</b> <b>£ 000</b>
Profit/(loss) for the financial year	<u>1,425</u>	<u>(4,557)</u>
Total comprehensive income/(loss) for the year	<u><u>1,425</u></u>	<u><u>(4,557)</u></u>

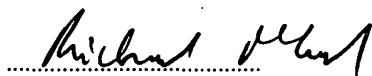
The notes on pages 12 to 27 form an integral part of these financial statements.

## Centrica PB Limited

### Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
<b>Non-current assets</b>			
Property, plant and equipment	12	3,575	4,619
Deferred tax assets	13	<u>2,347</u>	<u>2,494</u>
		<u>5,922</u>	<u>7,113</u>
<b>Current assets</b>			
Trade and other receivables	14	19,610	17,322
Inventories	15	<u>1,190</u>	<u>1,124</u>
		<u>20,800</u>	<u>18,446</u>
<b>Total assets</b>		26,722	25,559
<b>Current liabilities</b>			
Trade and other payables	16	(9,229)	(9,188)
Borrowings		<u>(43)</u>	<u>(120)</u>
		<u>(9,272)</u>	<u>(9,308)</u>
<b>Non-current liabilities</b>			
Trade and other payables	16	(4,318)	(4,622)
Provisions for liabilities	17	<u>(2,257)</u>	<u>(2,179)</u>
<b>Total liabilities</b>		<u>(15,847)</u>	<u>(16,109)</u>
<b>Net assets</b>		<u>10,875</u>	<u>9,450</u>
<b>Equity</b>			
Called up share capital	18	-	-
Retained earnings		<u>10,875</u>	<u>9,450</u>
<b>Total equity</b>		<u>10,875</u>	<u>9,450</u>

The financial statements on pages 8 to 27 were approved and authorised for issue by the Board of Directors on 18 August 2017 and signed on its behalf by:



Richard McCord

Director

Company number 04262250

## Centrica PB Limited

### Statement of Changes in Equity for the Year Ended 31 December 2016

	Called up share capital £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	-	9,450	9,450
Profit for the financial year	-	1,425	1,425
Total comprehensive income	-	1,425	1,425
At 31 December 2016	-	10,875	10,875

	Called up share capital £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2015	-	14,007	14,007
Loss for the financial year	-	(4,557)	(4,557)
Total comprehensive loss	-	(4,557)	(4,557)
At 31 December 2015	-	9,450	9,450

The notes on pages 12 to 27 form an integral part of these financial statements.

## **Centrica PB Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **1 General information**

Centrica PB Limited (the 'Company') is a company limited by share capital incorporated and domiciled in the UK.

The address of its registered office and principal place of business is:

Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

These financial statements were authorised for issue by the Board on 18 August 2017.

#### **2 Accounting policies**

##### **Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management;
- Disclosures in respect of related parties transactions with wholly-owned subsidiaries;
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of Centrica plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value;
- Disclosures of the net cash flows attributable to the operating, investing and financing activities of discontinued operations.

## **Centrica PB Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

The financial statements are prepared on the historical cost basis.

#### **Going concern**

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised.

#### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities, and is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Revenue is recognised on an accruals basis and is shown net of sales/value added tax, returns, rebates and discounts.

The Company is a lessor for certain lease contracts that contain both fixed and variable cash flows. The fixed income generated from operating leases is accounted for on a straight line basis whereas the variable income element is recognised on an accruals basis because this is deemed to be the most relevant method to account due to the nature of the income stream.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

#### **Cost of sales**

Cost of sales within the power generation business includes the depreciation of assets included in generating power, fuel purchase costs, direct labour costs and carbon emissions costs.

#### **Overhaul costs**

Contract work involved in replacing gas turbine components is capitalised and depreciated over their expected economic life, typically over the period to the next overhaul. Repairs and other costs that are not of a capital nature are charged directly to the income statement as incurred.

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 2 Accounting policies (continued)

##### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised and included in property, plant and equipment at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within trade and other payables, with the amount payable within 12 months included in trade and other payables within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

##### Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognised in the income statement for the period, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement in the respective financial line item to which they relate.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Non-monetary items that are measured at historical cost in a currency other than the functional currency of the Company are translated using the exchange rate prevailing at the dates of the initial transaction and are not retranslated. Non-monetary items measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was measured.

##### Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.



## **Centrica PB Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the balance sheet date.

#### **EU Emissions Trading Schemes and renewable obligation certificates**

Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Company's income statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

#### **Property, plant and equipment ('PP&E')**

PP&E is included in the statement of financial position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

For gas turbine components depreciation is provided to write off the cost of the assets over their operating lives on an equivalent hours basis.

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 2 Accounting policies (continued)

##### Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Power station assets and decommissioning asset	Straight line, up to 20 years
Buildings	Straight line, up to 20 years
Turbine components, other plant and machinery	Straight line, between 3 and 6 years

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

##### Inventories

Inventories are stated at the lower of cost incurred in bringing each item to its present location and condition and net realisable value. Provision is made where necessary for obsolete, slow-moving and defective inventory. Cost is determined on an average cost basis.

##### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement within interest expense.

##### Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning power stations at the end of their useful lives, based on price levels and technology at the balance sheet date.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the income statement within interest expense.

## **Centrica PB Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

#### **2 Accounting policies (continued)**

##### **Impairment**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ('CGU').

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

##### **Financial assets and liabilities**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

##### **Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest rate ('EIR') (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

##### **Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the EIR method (although, in practice, the discount is often immaterial). If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 2 Accounting policies (continued)

##### Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

##### Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with banks or similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's income statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

#### 3 Critical accounting judgements and key sources of estimation uncertainty

##### Decommissioning costs

The estimated cost of decommissioning of power stations is reviewed periodically and is based on 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 in 2019.

##### Impairment

The Company has material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Company's accounting policy as disclosed in note 2. The Company makes judgements and estimates in considering whether the carrying amounts of these assets or cash generating units are recoverable.

The recoverable amount of the Company's 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.

#### 4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
STOR revenue	<u>9,068</u>	<u>5,367</u>

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 4 Revenue (continued)

All revenue relates to the principal activity of the business and occurs wholly in the United Kingdom.

Included within the above are rentals receivable under operating leases in relation to STOR agreements amounting to £9,068,000 (2015: £5,367,000) which included £4,717,000 (2015: £3,908,000) contingent rentals in relation to utilisation fees under these agreements.

#### Capacity Tolling Arrangement

The Company is responsible for the safe and reliable operation of the Peterborough power station. The Company utilises the expertise within the wider Centrica plc group to optimise the value of the station through its trading operation. Accordingly, the Company has a capacity tolling arrangement with British Gas Trading Limited ("BGTL" - a fellow subsidiary of Centrica Plc) to provide a route to market and facilitate this optimisation. The agreement requires the Company to make generating capacity available to BGTL, where not already committed under a STOR agreement, and subsequently to deliver electricity in accordance with BGTL's nominations. BGTL must provide the gas for generation. Capacity market revenue from capacity market agreements will be retained by the Company. This arrangement is not considered a lease and income under the contract is recognised as earned.

No revenue was received under this arrangement in 2016 (2015: £Nil).

#### 5 Analysis of costs by nature

	Cost of sales £ 000	Operating costs £ 000	2016 Total costs £ 000	Cost of sales £ 000	Operating costs £ 000	2015 Total costs £ 000
Other cost of sales	5,365	-	5,365	4,974	-	4,974
Other operating expenses	-	1,411	1,411	-	4,326	4,326
Depreciation of tangible fixed assets	1,224	-	1,224	1,189	-	1,189
Operating lease expense	<u>599</u>	<u>-</u>	<u>599</u>	<u>599</u>	<u>-</u>	<u>599</u>
<b>Total operating costs by nature</b>	<u>7,188</u>	<u>1,411</u>	<u>8,599</u>	<u>6,762</u>	<u>4,326</u>	<u>11,088</u>

#### 6 Employees' costs

The Company has no direct employees (2015: zero). However, central payroll costs amounting to £1,238,000 (2015: £1,254,000) were incurred through a recharge during the year in respect of an average of 18 (2015: 19) staff providing services to Centrica PB Limited under an employee services agreement with a Group company. Also under this agreement additional pension costs of £225,000 (2015: £218,000) have been incurred from the Group company.

#### 7 Exceptional items

The following exceptional items were recognised in arriving at operating profit of the reporting year:

	2016 £ 000	2015 £ 000
Exceptional items - rates rebate	<u>812</u>	<u>-</u>

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### Rates rebate

Following a settlement in March 2017 with the rates office, the Company expects to receive a rates rebate of £812,000 in 2017. This rebate has been recognised as an exceptional item in the income statement.

#### 8 Other income

The analysis of the company's other income for the year is as follows:

	2016 £ 000	2015 £ 000
Miscellaneous other income	-	90

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 9 Finance income/cost

##### Finance income

	2016 £ 000	2015 £ 000
Interest income from amounts owed by Group undertakings	<u>529</u>	<u>906</u>

##### Finance costs

	2016 £ 000	2015 £ 000
Decommissioning provision notional interest	(48)	(55)
Finance lease charges	<u>(309)</u>	<u>(577)</u>
<b>Total finance costs</b>	<u>(357)</u>	<u>(632)</u>

#### 10 Directors' remuneration

The aggregate emoluments paid to Directors in respect of their qualifying services were £92,768 (2015: £90,879) and the aggregate value of company contributions paid to a pension scheme in respect of Directors' qualifying services were £11,950 (2015: £8,839).

There were two Directors (2015: two) to whom retirement benefits are accruing under a defined benefit pension scheme. There were two Directors (2015: one) to whom retirement benefits are accruing under money purchase pension schemes. Two Directors (2015: three) received shares in the ultimate parent company in respect of their qualifying services under a long-term incentive scheme and zero Directors (2015: two) exercised share options relating to the ultimate parent company. All of these costs were borne by other Group companies.

#### 11 Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements provided to the Company.

	2016 £ 000	2015 £ 000
Audit of the financial statements	<u>20</u>	<u>34</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group Financial accounts of its ultimate parent, Centrica plc.

**Centrica PB Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

**12 Property, plant and equipment**

	<b>Freehold land and buildings £ 000</b>	<b>Power station assets £ 000</b>	<b>Turbines components, other plant and machinery £ 000</b>	<b>Decommissioning asset £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>					
At 1 January 2016	3,081	84,844	21,973	2,199	112,097
Additions	-	13	-	167	180
Disposals	-	-	(8,339)	-	(8,339)
At 31 December 2016	<u>3,081</u>	<u>84,857</u>	<u>13,634</u>	<u>2,366</u>	<u>103,938</u>
<b>Accumulated depreciation</b>					
At 1 January 2016	2,758	82,615	20,359	1,746	107,478
Depreciation charge for the year	206	508	372	138	1,224
Disposals	-	-	(8,339)	-	(8,339)
At 31 December 2016	<u>2,964</u>	<u>83,123</u>	<u>12,392</u>	<u>1,884</u>	<u>100,363</u>
<b>Carrying amount</b>					
At 31 December 2016	<u>117</u>	<u>1,734</u>	<u>1,242</u>	<u>482</u>	<u>3,575</u>
At 31 December 2015	<u>323</u>	<u>2,229</u>	<u>1,614</u>	<u>453</u>	<u>4,619</u>

The net book value of assets held under finance lease was as follows:

	<b>Freehold land and buildings £ 000</b>	<b>Power station assets £ 000</b>	<b>Turbines components, other plant and machinery £ 000</b>	<b>Total £ 000</b>
At 31 December 2016	<u>81</u>	<u>967</u>	<u>1,074</u>	<u>2,122</u>
At 31 December 2015	<u>261</u>	<u>1,276</u>	<u>1,422</u>	<u>2,959</u>



## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 13 Income tax

Tax charged/(credited) in the income statement

	2016 £ 000	2015 £ 000
<b>Current taxation</b>		
UK corporation tax at 20% (2015: 20.25%)	(118)	(1,710)
UK corporation tax adjustment to prior periods	<u>(1)</u>	<u>31</u>
Total current income tax	<u>(119)</u>	<u>(1,679)</u>
<b>Deferred taxation</b>		
Arising from changes in tax rates and laws	137	269
Origination and reversal of timing differences	<u>10</u>	<u>610</u>
Total deferred taxation	<u>147</u>	<u>879</u>
Tax expense/(credit) in the income statement	<u><u>28</u></u>	<u><u>(800)</u></u>

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the profit/(loss) before income tax are reconciled below:

	2016 £ 000	2015 £ 000
Profit/(loss) before income tax	<u>1,453</u>	<u>(5,357)</u>
Tax expense/(credit) at standard UK rate 20% (2015: 20.25%)	291	(1,085)
<b>Effects of:</b>		
Net expenses non-deductible for tax purposes	36	52
Increase in current tax from adjustment for prior periods	-	32
Increase arising from group relief tax reconciliation	35	100
Decrease from transfer pricing adjustments	(35)	(101)
Decrease in current tax from unrecognised tax loss or credit	(436)	(68)
Deferred tax expense relating to changes in tax rates or laws	<u>137</u>	<u>270</u>
Total income tax expense/(credit)	<u><u>28</u></u>	<u><u>(800)</u></u>

The main rate of corporation tax for the year to 31 December 2016 was 20%. The corporation tax rate reduced to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020 following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016 respectively. These enacted rates have been reflected in these financial statements when providing for deferred tax.

**Centrica PB Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

**13 Income tax (continued)**

**Deferred tax**

The movements in respect of the deferred income tax assets and liabilities that occurred during the financial year are as follows:

Deferred tax movement during the year:

	At 1 January 2016 £ 000	Recognised in income £ 000	At 31 December 2016 £ 000
Other items	507	-	507
Accelerated tax depreciation	1,987	(147)	1,840
Net tax assets	<u>2,494</u>	<u>(147)</u>	<u>2,347</u>

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Other items	507	-	507
Accelerated tax depreciation	2,866	(879)	1,987
Net tax assets/(liabilities)	<u>3,373</u>	<u>(879)</u>	<u>2,494</u>

There are £Nil of deductible temporary differences (2015: £(2,179,000)) for which no deferred tax asset is recognised in the statement of financial position.

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

	2016 £ 000	2015 £ 000
Gross deferred tax balances crystallising within one year	305	446
Gross deferred tax balances crystallising after one year	<u>2,042</u>	<u>2,048</u>
	<u>2,347</u>	<u>2,494</u>
Net deferred tax balances (after offsetting for financial reporting purposes)	<u>2,347</u>	<u>2,494</u>

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 14 Trade and other receivables

	2016 Current £ 000	2015 Current £ 000
Amounts owed by Group undertakings	17,628	16,972
Prepayments	72	236
Other receivables	1,910	114
	<u>19,610</u>	<u>17,322</u>

Included within the amounts owed by Group undertakings is a net receivable of £17,524,000 (2015: £15,187,000) consisting of interest bearing and non-interest bearing balances to the same Group undertaking. Of the amounts that bears interest is a receivable balance of £17,989,000 (2015: £24,549,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. Of the amount that is non-interest bearing is a payable of £465,000 (2015: payable £9,362,000) which has been netted against the receivable from the same Group undertaking resulting in a net receivable of £17,524,000 (2015: £15,187,000). The quarterly rates ranged between 3.04% and 4.04% per annum during 2016 (2015: 2.36% and 2.88%).

Also included within the amounts owed by Group undertakings is a corporation tax receivable of £118,000 (2015: £1,710,000).

The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.

#### 15 Inventories

	2016 £ 000	2015 £ 000
Strategic spares and consumables	<u>1,190</u>	<u>1,124</u>

There is no significant difference between the replacement cost of inventories and their carrying amounts.

**Centrica PB Limited**

**Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)**

**16 Trade and other payables**

	2016		2015	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Trade payables	112	-	90	-
Accruals and deferred income	338	-	448	-
Amounts owed to Group undertakings	8,297	-	8,282	-
Value Added Tax	67	-	-	-
EU ETS emissions obligations	102	-	73	-
Obligations under intra-Group finance leases	313	4,318	295	4,622
	<u>9,229</u>	<u>4,318</u>	<u>9,188</u>	<u>4,622</u>

Amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

**17 Provisions for liabilities**

	Decommissioning £ 000
At 1 January 2016	2,179
Accretion of interest	48
Additions and revisions	165
Utilisation	(135)
At 31 December 2016	<u>2,257</u>

**Decommissioning provision**

The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but is currently anticipated to be incurred in 2019.

In 2016 the discount rate used to calculate the decommissioning provision was reduced from 2.2% to 1.2%. This change increased the decommissioning liability by £70,000.

**18 Called up share capital**

**Allotted, called up and fully paid shares**

	2016		2015	
	No.	£	No.	£
Ordinary Shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

## Centrica PB Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

#### 19 Commitments and contingencies

##### Leases as lessee

At 31 December 2016 the Company had annual commitments under non-cancellable operating leases with the following maturity:

	2016 £ 000	2015 £ 000
In two to five years	11	11
In over five years	599	599
	<u>610</u>	<u>610</u>

##### Leases as lessor

The Company receives STOR revenue which, as discussed in Note 4, constitutes rental income under operating leases. This income is recognised as earned.

Total future minimum lease payments under non-cancellable operating leases expected to be received within one year is £1,448,000 (2015: £4,351,000).

#### 20 Parent and ultimate parent undertaking

The immediate parent undertaking is GB Gas Holdings Limited, a company registered in England and Wales.

The ultimate parent and controlling party is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated statements. Copies of the Centrica plc consolidated financial statements may be obtained from [www.centrica.com](http://www.centrica.com).