

Registration number: 02571241

Centrica SHB Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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Centrica SHB Limited

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Centrica SHB Limited

Strategic Report for the Year Ended 31 December 2016

The Directors present the Strategic Report for Centrica SHB Limited (the "Company") for the year ended 31 December 2016.

Review of the business

The Company's principal activity during the year was the operation of a 1285 MW combined cycle gas turbine power station at Stallingborough, North Lincolnshire ("South Humber Bank Power Station").

The Company operates under a capacity tolling agreement with British Gas Trading Limited who are responsible for energy procurement for the Centrica plc Group ("the Group").

In March 2015 a decision was made to maintain Phase 1 in a state of preservation from April 2015 to March 2017. This was a result of market conditions. Since this decision was made, Phase 1 has secured investment for a major overhaul in 2017/18 and was awarded a Supplementary Balancing Reserve ("SBR") contract for Winter 2016/17. Phase 2 has continued to operate throughout 2016, except for an outage to Q1 to rectify a compressor blade failure during which Phase 1 was temporarily brought out of preservation. Phase 1 will return to full commercial production in October 2017.

Market conditions continued to be challenging for gas-fired power stations, however they did improve over winter 2016 as the low reserve margin primarily driven by coal closures combined with the risk of high balancing charges due to expensive SBR contracts increased market prices. The full benefit of this price increase was not realised due to the forward selling of volumes in line with the Group hedging policy.

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 creating an increased 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. Humber was successful in obtaining a capacity market agreement for 2017/18 and 2020/21 having already secured a capacity market agreement for 2018/19 and 2019/20 in previous auctions.

Capacity Tolling Arrangement

The Company is responsible for the safe and reliable operation of the South Humber 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 Supplementary Balancing Reserve 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.

The contract continues until 31 December 2018, although note that the expected divestment of the Company (see note 23) by the Centrica Plc Group will see this internal Group agreement come to an end.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: reduced disclosures framework ("FRS 101").

Centrica SHB Limited

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

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of 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)

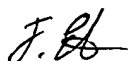
See 'Review of the Business' section above for the future plans for this site.

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 2016 Centrica plc Annual Report and Accounts which does not form part of this report.

Future developments

The Centrica plc 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 SHB Limited.

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. 02571241

Registered office:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica SHB 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:

Mark Futyan

Mark Taylor - Director (appointed 4 October 2016)

Peter Koch de Gooreynd (resigned 5 September 2016)

Richard McCord

Results and dividends

The results of the Company are set out on page 8. The loss for the financial year ended 31 December 2016 is £39,957,475 (2015: loss: £12,741,000). 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 arose 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 Centrica plc 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 Centrica plc Group undertakings.
- Foreign currency exposure is monitored by currency and duration and managed through hedging activities.

The Company did not take part in any hedging activity other than hedging with respect to foreign currency risk.

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 the earlier of at least one year after the Financial Statements were approved or the completion of the expected sale as discussed in Note 23. The Directors expect that the new parent company will provide similar support arrangements for Centrica SHB Limited on completion.

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 SHB 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 SHB Limited until the formal resignation process has been completed later in 2017, after which Deloitte LLP will be appointed as auditors of Centrica SHB Limited.

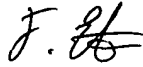
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office, until the formal resignation process has been completed.

Centrica SHB 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. ELLIOR

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

Company registered in England and Wales, No. 02571241
Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica SHB Limited

Independent Auditors' Report to the Members of Centrica SHB Limited

Report on the financial statements

Our opinion

In our opinion, Centrica SHB 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 loss 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 SHB Limited

Independent Auditors' Report to the Members of Centrica SHB 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

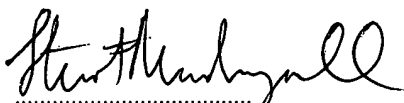
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	4	27,707	19,002
Cost of sales	5	<u>(35,699)</u>	<u>(31,044)</u>
Gross loss		<u>(7,992)</u>	<u>(12,042)</u>
Operating costs	5	<u>(13,815)</u>	<u>(9,050)</u>
Other income	6	<u>985</u>	<u>-</u>
Operating loss		(20,822)	(21,092)
Finance cost	8	(16,348)	(77)
Finance income	8	<u>-</u>	<u>9,222</u>
Loss before income tax		(37,170)	(11,947)
Income tax expense	11	<u>(2,787)</u>	<u>(794)</u>
Loss for the financial year		<u>(39,957)</u>	<u>(12,741)</u>

The above results were derived from continuing operations.

Centrica SHB Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

	2016 £ 000	2015 £ 000
Loss for the financial year	<u>(39,957)</u>	<u>(12,741)</u>
Total comprehensive loss for the year	<u><u>(39,957)</u></u>	<u><u>(12,741)</u></u>

The notes on pages 12 to 31 form an integral part of these financial statements.

Centrica SHB Limited

Statement of Financial Position as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Non-current assets			
Deferred tax assets	11	5,928	8,751
Property, plant and equipment	12	<u>121,402</u>	<u>125,544</u>
		<u>127,330</u>	<u>134,295</u>
Current assets			
Trade and other receivables	13	550,992	556,326
Inventories	14	7,688	7,665
Other financial assets	15, 21	<u>5,342</u>	<u>-</u>
		<u>564,022</u>	<u>563,991</u>
Total assets		691,352	698,286
Current liabilities			
Borrowings		(93)	(2)
Trade and other payables	16	(488,295)	(461,754)
Other financial liabilities	17, 21	<u>(5,745)</u>	<u>(12)</u>
		<u>(494,133)</u>	<u>(461,768)</u>
Non-current liabilities			
Provisions for other liabilities and charges	18	<u>(4,335)</u>	<u>(3,677)</u>
Total liabilities		<u>(498,468)</u>	<u>(465,445)</u>
Net assets		<u>192,884</u>	<u>232,841</u>
Equity			
Called up share capital	19	20,000	20,000
Share premium account		8,436	8,436
Retained earnings		<u>164,448</u>	<u>204,405</u>
Total equity		<u>192,884</u>	<u>232,841</u>

The financial statements on pages 8 to 31 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 02571241

Centrica SHB Limited

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

	Called up share capital £ 000	Share premium account £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2016	20,000	8,436	204,405	232,841
Loss for the financial year	-	-	(39,957)	(39,957)
Total comprehensive loss	-	-	(39,957)	(39,957)
At 31 December 2016	20,000	8,436	164,448	192,884
	Called up share capital £ 000	Share premium account £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2015	20,000	8,436	217,146	245,582
Loss for the financial year	-	-	(12,741)	(12,741)
Total comprehensive income	-	-	(12,741)	(12,741)
At 31 December 2015	20,000	8,436	204,405	232,841

The notes on pages 12 to 31 form an integral part of these financial statements.

Centrica SHB Limited

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

1 General information

Centrica SHB 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.

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.

Centrica SHB Limited

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

2 Accounting policies (continued)

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments designated at fair value through profit and loss on initial recognition. The carrying value of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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 the earlier of at least one year after the Financial Statements were approved or the completion of the expected sale as discussed in Note 23. The Directors expect that the new parent company will provide similar support arrangements for Centrica SHB Limited on completion.

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 principally relates to the sale of power generation capacity to a fellow Group undertaking in accordance with a capacity tolling arrangement. It is shown net of sales/value added tax, returns, rebates and discounts.

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 SHB 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 bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

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

Payments under operating leases are charged to the 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.

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 and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

Centrica SHB 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 or 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 SHB 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 30 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 inventories. 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. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceeded the economic benefits expected to be received under it.

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.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Centrica SHB 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. 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 SHB 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.

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.

Derivative financial instruments

The Company uses a range of derivatives to hedge exposures to foreign exchange risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Centrica plc Group's policies. Further detail on the Group's risk management policies is included within the Centrica Annual Report and Accounts 2016 of the ultimate controlling party being Centrica plc, in the Strategic Report – Principal Risks and Uncertainties on pages 56 to 64 and in note S3.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured.

Centrica SHB Limited

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

2 Accounting policies (continued)

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

Derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the income statement.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges or cash flow hedges.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on re-measurement are recognised immediately in the income statement.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss e.g. when interest income or expense is recognised.

Centrica SHB Limited

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

2 Accounting policies (continued)

For cash flow hedges, other than those covered above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

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 2028.

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
Power station tolling revenue	19,832	17,522
Supplementary Balancing Reserve revenue	6,640	128
Other revenue	1,235	1,352
	<u>27,707</u>	<u>19,002</u>

Centrica SHB 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 Supplementary Balancing Reserve agreements amounting to £6,640,000 (2015: £128,000) of which £661,000 (2015: £nil) are contingent rentals in relation to utilisation fees under these agreements. Additionally, included within the above are amounts receivable under an internal Group capacity tolling arrangement. The original arrangement expired on 31 December 2015 and had been assessed as an operating lease. The replacement agreement in the current year has been assessed as not being an operating lease. Included in the above are rentals receivable under operating leases in relation to this arrangement of £nil (2015: £17,522,000).

Capacity Tolling Arrangement

The Company is responsible for the safe and reliable operation of the South Humber 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 Supplementary Balancing Reserve 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.

The contract continues until 31 December 2018, although note that the expected divestment of the Company (see note 23) by the Centrica Plc Group will see this internal Group agreement come to an end.

5 Analysis of costs by nature

	2016			2015		
	Cost of sales	Other operating costs	Total costs	Cost of sales	Other operating costs	Total costs
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Depreciation expense	15,078	-	15,078	8,867	-	8,867
Other operating expenses	-	13,815	13,815	-	9,050	9,050
Other cost of sales	20,621	-	20,621	22,177	-	22,177
Total operating costs by nature	35,699	13,815	49,514	31,044	9,050	40,094

Centrica SHB Limited

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

6 Other income

The analysis of the company's other gains and losses for the year is as follows:

	2016 £ 000
Gain on disposal of property, plant and equipment	134
Rates rebate	851
	<u>985</u>

7 Employees' costs

The Company has no direct employees (2015: zero). However, payroll costs amounting to £4,009,000 (2015: £3,913,000) were incurred through a recharge during the year in respect of an average of 57 (2015: 59) staff providing services to Centrica SHB Limited under an employee services agreement with a Group company. Also under this agreement additional pension costs of £479,000 (2015: £447,000) have been incurred from the Group company.

8 Finance income/cost

Finance income

	2016 £ 000	2015 £ 000
Interest income from amounts owed by Group undertakings	-	9,201
Other finance income	-	21
Total finance income	<u>-</u>	<u>9,222</u>

Finance cost

	2016 £ 000	2015 £ 000
Interest on amounts owed to Group undertakings	(16,267)	-
Unwind of discount on decommissioning provisions	(81)	(77)
Total finance cost	<u>(16,348)</u>	<u>(77)</u>

9 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 no Directors (2015: two) exercised share options relating to the ultimate parent company. Some of these costs were borne by other Group companies.

Centrica SHB Limited

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

10 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	2015
	£ 000	£ 000
Audit of the financial statements	<u>49</u>	<u>45</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 Statements of its ultimate parent, Centrica plc.

Centrica SHB Limited

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

11 Income tax

Tax charged/(credited) in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax at 20% (2015: 20.25%)	-	(5,797)
UK corporation tax adjustment to prior periods	(36)	1,525
	<u>(36)</u>	<u>(4,272)</u>
Deferred taxation		
Adjustment in respect of prior years	6	-
Arising from changes in tax rates and laws	74	922
Origination and reversal of timing differences	2,743	4,144
	<u>2,823</u>	<u>5,066</u>
Total deferred taxation	<u>2,823</u>	<u>5,066</u>
Tax expense in the income statement	<u>2,787</u>	<u>794</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 before tax are reconciled below:

	2016 £ 000	2015 £ 000
Loss before income tax	<u>(37,170)</u>	<u>(11,947)</u>
Tax credit at standard UK rate 20.00% (2015: 20.25%)	(7,434)	(2,419)
Effects of:		
Net expenses non-deductible for tax purposes	1,151	787
Increase (decrease) in current tax from adjustment for prior periods	(30)	1,525
Decrease from effect of revenues exempt from taxation	-	(21)
Increase (decrease) arising from group relief tax reconciliation	7,406	(2,131)
Increase from transfer pricing adjustments	1,620	2,134
Deferred tax expense relating to changes in tax rates or laws	74	922
Decrease from effect of rollover relief on profit on disposal of fixed assets	-	(3)
	<u>2,787</u>	<u>794</u>
Total income tax expense	<u>2,787</u>	<u>794</u>

The main rate of corporation tax for the year to 31 December 2016 was 20%. The corporation tax rate will reduce 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 SHB Limited

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

11 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
Accelerated tax depreciation	8,536	(2,859)	5,677
Derivatives	(1)	-	(1)
Other items	216	36	252
Net tax assets/(liabilities)	<u>8,751</u>	<u>(2,823)</u>	<u>5,928</u>

Deferred tax movement during the prior year:

	At 1 January 2015 £ 000	Recognised in income £ 000	At 31 December 2015 £ 000
Accelerated tax depreciation	13,632	(5,096)	8,536
Derivatives	(1)	-	(1)
Other items	186	30	216
Net tax assets/(liabilities)	<u>13,817</u>	<u>(5,066)</u>	<u>8,751</u>

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	1,988	2,919
Gross deferred tax balances crystallising after one year	<u>3,940</u>	<u>5,832</u>
	<u>5,928</u>	<u>8,751</u>
Net deferred tax balances (after offsetting for financial reporting purposes)	<u>5,928</u>	<u>8,751</u>

Centrica SHB Limited

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

12 Property, plant and equipment

	Freehold Land £ 000	Power station assets £ 000	Turbine components and other plant and machinery £ 000	Decommissioning asset £ 000	Total £ 000
Cost or valuation					
At 1 January 2016	2,210	539,873	203,796	3,063	748,942
Additions	-	933	9,580	94	10,607
Disposals	-	-	(1,801)	-	(1,801)
Revaluation to discount rate	-	-	-	483	483
At 31 December 2016	<u>2,210</u>	<u>540,806</u>	<u>211,575</u>	<u>3,640</u>	<u>758,231</u>
Accumulated depreciation					
At 1 January 2016	-	519,678	103,137	583	623,398
Depreciation charge for the year	-	1,808	13,065	205	15,078
Disposals	-	-	(1,647)	-	(1,647)
At 31 December 2016	<u>-</u>	<u>521,486</u>	<u>114,555</u>	<u>788</u>	<u>636,829</u>
Carrying amount					
At 31 December 2016	<u>2,210</u>	<u>19,320</u>	<u>97,020</u>	<u>2,852</u>	<u>121,402</u>
At 31 December 2015	<u>2,210</u>	<u>20,195</u>	<u>100,659</u>	<u>2,480</u>	<u>125,544</u>

Included within the net book value of land and buildings above is £2,210,000 (2015: £2,210,000) in respect of freehold land and buildings.

The fair value of the Company's decommissioning asset was revalued due to a change in the discount rate to 1.2% (real) from 2.2% (real). This resulted in an adjustment of £483,000 in the balance sheet in 2016 (see note 18).

Centrica SHB Limited

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

13 Trade and other receivables

	2016 £ 000	2015 £ 000
Amounts owed by Group undertakings	533,726	555,126
Prepayments	9,461	763
Other receivables and accrued income	7,805	437
	<u>550,992</u>	<u>556,326</u>

Included within the amounts receivable from Group undertakings is a receivable of £528,555,000 (2015: £545,159,000) consisting of interest bearing and non-interest bearing balances to the same Group undertaking. The amounts receivable from Group undertakings include £516,404,000 (2015: £90,074,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.04% and 4.04% per annum during 2016 (2015: 2.36% and 2.88%). The non-interest bearing balance comprises a receivable of £12,151,000 (2015: £455,085,000). The other amounts owed by Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.

Also included within the amounts owed by Group undertakings is a corporation tax receivable of £nil (2015: £5,797,000).

14 Inventories

	2016 £ 000	2015 £ 000
Raw materials and consumables	<u>7,688</u>	<u>7,665</u>

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

15 Other financial assets

	2016 £ 000	2015 £ 000
Derivatives financial instruments	<u>5,342</u>	<u>-</u>

Centrica SHB Limited

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

16 Trade and other payables

	2016 Current £ 000	2015 Current £ 000
Trade payables	666	594
Accrued expenses	9,582	897
Amounts owed to Group undertakings	472,818	456,320
Value Added Tax	285	-
EU ETS emissions obligation	4,944	3,943
	<u>488,295</u>	<u>461,754</u>

All amounts payable to Group undertakings are unsecured, interest-free and repayable on demand.

17 Other financial liabilities

	2016 Current £ 000	2015 Current £ 000
Derivative financial instruments	<u>5,745</u>	<u>12</u>

18 Provisions for other liabilities and charges

	Decommissioning £ 000
At 1 January 2016	3,677
Additions and revisions	94
Accretion of interest	81
Increase due to change in discount rate	<u>483</u>
At 31 December 2016	<u>4,335</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 2028.

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 £483,000.

Centrica SHB Limited

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

19 Capital and reserves

Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary Shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>

20 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	<u>49</u>	<u>49</u>
	<u>60</u>	<u>60</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year as cost of sales was £11,000 (2015: £11,000).

Leases as lessor

The Company receives Supplementary Balancing Reserve 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 £5,852,000 (2015: £5,979,000).

Capital commitments

Contracted future capital expenditure as at 31 December 2016 was £38,109,000 (2015: £56,247,000).

Centrica SHB Limited

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

21 Financial instruments at fair value

The Company has entered into forward contracts to economically hedge its foreign exchange exposure on milestone payments made to foreign suppliers. The derivatives fair value are recognised in the financial statements.

Determination of fair values

The Company's policy for the classification and valuation of financial instruments is disclosed in the accounting policies section of these financial statements. The fair value hierarchy levels are determined in accordance with IFRS 13 and are consistent with those used by its ultimate controlling party being Centrica plc. Further information on the matter including valuation techniques to derive Level 2 and Level 3 fair values is provided in its Annual Report and Accounts 2016, in note S6 from page 176 onwards.

Financial instruments carried at fair value

	<i>Fair value hierarchy</i>			
	2016	2016	2015	2015
	Fair value and	Level 2	Fair value and	Level 2
	carrying value	£ 000	carrying value	£ 000
	£ 000	£ 000	£ 000	£ 000
Financial assets at fair value through profit or loss:				
Foreign exchange derivatives	5,342	5,342	-	-
Total financial assets at fair value through profit or loss	5,342	5,342	-	-
Financial liabilities at fair value through profit or loss:				
Foreign exchange derivatives	(5,745)	(5,745)	(12)	(12)
Total financial liabilities at fair value through profit or loss	(5,745)	(5,745)	(12)	(12)
Total financial instruments at fair value	(403)	(403)	(12)	(12)

22 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. These financial statements are available upon request from www.centrica.com.

Centrica SHB Limited

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

23 Events after the financial period

On the 21st June 2017, it was announced that Centrica plc plan to sell Centrica SHB Limited to EPH. It is expected that this will be finalised during Q4 2017.

24 Related undertakings

The company has related undertakings as follows:

Related undertakings	Principal activity	Country of incorporation	Principal place of business	Class of shares held	Direct investment and voting rights (%)	Indirect interest and voting rights (%)
Humberland Limited	Dormant	United Kingdom	Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD	Ordinary	100%	