Registration number: 5782908

Centrica Connected Home Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

Centrica Connected Home Limited

Contents

Centrica Connected Home Limited

Strategic Report for the Year Ended 31 December 2016

The Directors present the Strategic Report for Centrica Connected Home Limited (the 'Company') for the year ended 31 December 2016.

Principal activities
The principal activities of the Company are the development of a software platform, and associated hardware products, related to virtual home monitoring together with the sale of Hive Smart thermostats and other connected Hive products and services. This assists our customers in the areas of home energy management, home automation and peace of mind.

Review of the business
The results of the Company for the year, as set out on page 10, show a loss before income tax for the year of £41,566,000 (2015: loss £6,246,000). The increase in losses from the previous year predominantly reflects investment in infrastructure, product development and capability to support business growth.

During the year we launched four new Connected Home products in the Hive range: Active Plug, Window and Door Sensor, Motion Sensor, and Active Lights.

On 25 August 2016, the Company acquired 100% of the share capital of Flowgem Limited ('Flowgem') in exchange for an initial cash consideration of £11,730,000. Flowgem is an early-stage UK-based technology business that is developing an innovative device to remotely detect water leaks. The acquisition provides us with a device, associated technology and intellectual property to detect water leaks and supplements our growing ecosystem that is central to residential peace of mind propositions.

As at 31 December 2016, the Company had net liabilities of £34,248,000 (2015: net liabilities of £952,000).

Principal risks and uncertainties
From the Company's perspective, 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 Annual Report and Accounts of the Group, which does not form part of this Report.

Exit from the European Union
The UK referendum vote in June 2016 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 Company use a number of KPIs to monitor progress against the strategy of the Group. The development, performance and position of the Group, which includes the Company, are discussed on pages 18 and 19 of the 2016 Annual Report and Accounts which does not form part of this Report.

Future developments
The Company is now focussed on the development of various new products that complement the current home heating platform and on entry into new geographical markets.

We will look to expand the Hive product range, including the launch of a water leak detection product enabled by the acquisition of Flowgem. We plan to build a global business providing new and innovative solutions for consumers across the world.

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 the Company.

Approved by the Board on 27 September 2017 and signed on its behalf by:

....

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

Company registered in England and Wales, No. 5782908

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica Connected Home 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 who held office during the year and up to the date of signing this report were as follows:

N Bhatia

C Gard

Results and dividends
The results of the Company are set out on page 10. The loss for the financial year ended 31 December 2016 is £33,296,000 (2015: loss £5,280,000).

No dividends were paid during the year (2015: £nil) and the Directors do not recommend the payment of a final dividend (2015: £nil).

The financial position of the Company is presented in the Statement of Financial Position (the 'balance sheet') on page 12. Total equity at 31 December 2016 is £(34,248,000) (2015: £(952,000)).

Financial risk management

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 in terms of price risk, credit risk, liquidity risk and cash flow risk
Exposure to counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk is limited predominantly to exposure with other Group companies or arises in the normal course of operations as a result of the potential for a customer to default on their payable balance. In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. An ageing of receivables is monitored and used to manage the exposure to credit risk.

Cash forecasts identifying the liquidity requirements of the Company are produced and reviewed periodically to ensure there is sufficient financial headroom for at least a twelve month period from the date of approval of these financial statements.

Employees

The Company remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts at key points in the year.

The Group's all-employee share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. We offer Sharesave, HMRC's Save As You Earn Scheme, and the Share Incentive Plan (SIP); with good levels of take-up in these Group schemes across the Company.

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

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

Safety is the number one priority of the Group and the focus in 2016 which will continue into 2017 is to continue building safety capability across the business to keep our people and our customers safe.

Future developments

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

Research and development

Research and development ('R&D') in the year was mainly comprised of two distinct work streams. One was the further development of the software platform. The other was research into other potential revenue generating activities, both in terms of hardware and software development and in terms of data analysis from data provided by the software platform.

Where the R&D expenditure meets the criteria for recognition as an intangible asset the costs have been capitalised. All other expenditure has been expensed in the year, either within salary costs, for internal staff, or within R&D expenditure, for external costs.

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 period under review. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Centrica Connected Home 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 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.

Statement of Directors' Responsibilities (continued)

Reappointment of auditors

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

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.

Approved by the Board on 27 September 2017 and signed on its behalf by:

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

Company registered in England and Wales, No. 5782908

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica Connected Home Limited

Independent Auditors' Report to the Members of Centrica Connected Home Limited

Report on the financial statements

Our opinion

In our opinion, Centrica Connected Home 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 Statement of Changes in Equity for the year then ended;
- the Income Statement and Statement of Comprehensive Income 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 matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the 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; and

- 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.

Independent Auditors' Report to the Members of Centrica Connected Home Limited (continued)

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.

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 5), 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.

....

Alan Walsh (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP

1 Embankment Place
London
WC2N 6RH

27 September 2017

Centrica Connected Home Limited

Income Statement for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Revenue	4	32,481	9,063
Cost of sales	5	(23,986)	(4,040)
Gross profit		8,495	5,023
Operating costs	5	(49,518)	(11,093)
Operating (loss)		(41,023)	(6,070)
Finance income	7	-	6
Finance cost		(543)	(182)
(Loss) before income tax		(41,566)	(6,246)
Income tax credit	9	8,270	966
(Loss) for the year		(33,296)	(5,280)

The above results were derived from continuing operations.

The notes on pages 14 to 33 form an integral part of these financial statements.

Centrica Connected Home Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

	2016 £ 000	2015 £ 000
Loss for the year	(33,296)	(5,280)
Total comprehensive loss for the year	(33,296)	(5,280)

The notes on pages 14 to 33 form an integral part of these financial statements.

Centrica Connected Home Limited

Statement of Financial Position as at 31 December 2016

	Note	31 December 2016 £ 000	31 December 2015 £ 000
Non-current assets			
Intangible assets	10	40,126	6,595
Property, plant and equipment	11	9	62
Investments	12	20	20
Deferred tax assets	9	9	-
		40,164	6,677
Current assets			
Inventories	13	8,263	8
Trade and other receivables	15	21,744	3,959
Income tax asset	9	2	53
Cash and cash equivalents		1,509	463
		31,518	4,483
Total assets		71,682	11,160
Current liabilities			
Trade and other payables	16	(103,301)	(12,077)
Provisions for other liabilities and charges	17	(193)	-
		(103,494)	(12,077)
Non-current liabilities			
Deferred tax liabilities	9	(1,369)	-
Provisions for other liabilities and charges	17	(1,067)	(35)
		(2,436)	(35)
Total liabilities		(105,930)	(12,112)
Net liabilities		(34,248)	(952)
Equity			
Share capital	19	2,030	2,030
Share premium		47,383	47,383
Accumulated losses		(83,661)	(50,365)
Total equity		(34,248)	(952)

The financial statements on pages 10 to 33 were approved and authorised for issue by the Board of Directors on 27 September 2017 and signed on its behalf by:

C.D.G

C Gard

Director

Company number 5782908

The notes on pages 14 to 33 form an integral part of these financial statements.

Centrica Connected Home Limited

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

	Share capital £ 000	Share premium £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2016	2,030	47,383	(50,365)	(952)
Loss for the year and total comprehensive loss	-	-	(33,296)	(33,296)
At 31 December 2016	2,030	47,383	(83,661)	(34,248)

	Share capital £ 000	Share premium £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 January 2015	1,828	42,558	(45,085)	(699)
Loss for the year and total comprehensive loss	-	-	(5,280)	(5,280)
Issue of shares	202	4,825	-	5,027
At 31 December 2015	2,030	47,383	(50,365)	(952)

The notes on pages 14 to 33 form an integral part of these financial statements.

1 General information

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

The address of its registered office is:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD
England and Wales

2 Accounting policies

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

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.

Adoption of standards and summary of disclosure exemptions
The Company had early adopted the following amendment to FRS 101 in its financial statements for the year ended 31 December 2015:

• Presentation of financial statements in accordance with IAS 1.

From 1 January 2016, the following standards and amendments are effective in the Company's financial statements. Their first time adoption does not have a material impact on the financial statements:

• Amendment to IAS 1 'Presentation of financial statements' related to the disclosure initiative;
•Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible asseets' related to the clarification of acceptable methods of depreciation and amortisation;
• 'Annual Improvement Project 2010-2012'; and
• 'Annual Improvement Project 2012-2014'.

2 Accounting policies (continued)

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

• The requirements of IAS 7 'Statement of Cash Flows';
• The statement of compliance with Adopted IFRSs;
• The effects of new but not yet effective IFRSs;
• Comparative period reconciliations for property, plant and equipment and intangible assets;
• Comparative period reconciliations for share capital;
• Disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
• Disclosures in respect of the compensation of key management personnel; and
• Disclosures in respect of capital management.

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 IAS 36 'Impairment of assets' in respect of the impairment of goodwill and indefinite life intangible assets;
• Certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value. and
• Certain disclosures required by IFRS 3 'Business Combinations' in respect of business combinations undertaken by the Company.

Departures from requirements of Financial Reporting Standard 101 and their financial impact
The Company has used a true and fair view override in respect of the non-amortisation of goodwill.

The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Going concern
The financial statements have been prepared on a going concern basis.

The Company is loss-making and will require equity or debt financing to fund its operations until such time as sales, revenues and gross margins are sufficient to support its operations. Centrica plc, the ultimate controlling party, has confirmed its intention to provide financial support to Centrica Connected Home Limited for at least 12 months after the date of signing these financial statements so that the Company will be able to meet its liabilities as they fall due. It is on this basis the Directors have concluded the Company is a going concern.

These financial statements do not reflect any adjustments that may be required if the Company was unable to continue in operational existence for the foreseeable future.

Exemption from preparing group financial statements
The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly-owned subsidiary of Centrica plc. These financial statements present information about the Company as an individual undertaking and not about its group.

2 Accounting policies (continued)

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 is shown net of sales/value added tax, returns, rebates and discounts.

Revenue is recognised on an accruals basis. Amounts paid in advance are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Employee share schemes
The Centrica plc group, to which Centrica Connected Home Limited belongs, has a number of employee share schemes, detailed in the Remuneration Report on pages 83-99 and in note S2 of the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the income statement together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

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.

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

Borrowing costs
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a financing rate representative of the weighted average borrowing rate is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

2 Accounting policies (continued)

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. 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.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. 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.

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. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

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.

Business combinations and goodwill

The acquisition of assets that constitute a business is accounted for using the acquisition method (at the point the Company gains control over a business as defined by IFRS 3 (Revised (2008)): 'Business combinations'). The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement at the acquisition date. Goodwill arising on a business combination represents the excess of the consideration transferred and the acquisition date fair value of any previously held interest in the acquiree over the Company's interest in the fair value of the identifiable net assets acquired.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Subsequent changes to the amount are taken to the Income Statement.

Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5: 'Non-current assets held for sale and discontinued operations'.

Amortisation of goodwill

The Company has used a true and fair override and does not amortise goodwill as explained on page 15.

2 Accounting policies (continued)

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets include patents, application software and development costs.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Amortisation of intangible assets

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	**Amortisation method and rate**
Internally generated software development costs	Straight line, up to 5 years
Trademarks, patents and licences	Straight line, up to 5 years
Acquired software development costs	Straight line, up to 6 years

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. The purchase price is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E is 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.

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**
Furniture, fittings and equipment	Straight line, over 3 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.

Investments in subsidiaries

Fixed asset investments in subsidiaries' shares are held at deemed cost on transition to FRS 101 and in accordance with IAS 27, less any provision for impairment as necessary.

2 Accounting policies (continued)

Inventories
Inventories are valued at the lower of cost and estimated net realisable value after allowance for obsolete and slow-moving items.

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.

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 to 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.

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 the 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 the 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.

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.

2 Accounting policies (continued)

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

Management has made the following key judgements in applying the Company's accounting policies that have the most significant effect on the Company's financial statements. Additionally, the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Critical judgements in applying the Company's accounting policies

Impairment of intangible assets
The Company has material long-lived assets that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts of these assets are recoverable. The key assets that are subjected to impairment tests are internally generated software development costs.

Business combinations
Business combinations require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities, contingent liabilities and goodwill. As a result of the nature of fair value assessments a purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations.

Key sources of estimation uncertainty

Contingent consideration
The Flowgem acquisition included the potential payment of deferred consideration. Consideration is payable to the vendors at the rate of £1 for each unit that is sold or supplied to a customer and activated on the platform for a three year period. The contingent consideration is capped at a maximum. IFRS 3 requires contingent consideration to be measured at fair value at the acquisition date. The fair value calculations include estimates of probabilities of different outcomes including likelihood and timing of volumes supplied in the earn-out period.

4 Revenue

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

	2016 £ 000	2015 £ 000
Sale of goods and services related to home automation	32,481	9,063

Revenue - by geography

	2016 £ 000	2015 £ 000
United Kingdom	32,150	6,557
United States	331	2,048
Rest of the world	-	458
	32,481	9,063

5 Analysis of costs by nature

2016

	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Raw materials and consumables used	23,751	-	23,751
Wages and salaries	-	22,326	22,326
Other employee expense (including subcontractors and agency staff)	205	17,519	17,724
Depreciation, amortisation, impairment and write-downs	-	1,764	1,764
Other costs	30	7,909	7,939
	23,986	49,518	73,504

2015

	Cost of sales £ 000	Other operating costs £ 000	Total costs £ 000
Raw materials and consumables used	2,453	-	2,453
Wages and salaries	-	6,477	6,477
Other employee expense (including subcontractors and agency staff)	1,557	242	1,799
Depreciation, amortisation, impairment and write-downs	-	1,376	1,376
Other costs	30	2,998	3,028
	4,040	11,093	15,133

6 Employees' costs

The disclosures in this note reflect the costs and number of all Centrica plc Group employees that work in the Centrica Connected Home Limited business regardless of whether they have a contract of employment with Centrica Connected Home Limited or another Group company. The Directors believe that the disclosures given on this basis are the fullest representation of the cost and number of employees working in the business.

The aggregate employee costs (including Directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	18,968	5,789
Social security costs	1,800	613
Pension and other post-employment benefit costs	1,206	75
Share-based payment expenses	352	-
	22,326	6,477

In respect of the Directors' remuneration, refer to note 22 'related party transactions'.

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2016 No. of employees	2015 No. of employees
Administration and support	205	33
Product development and sales	56	-
	261	33

2016 includes Flowgem employees from the date of acquisition.

7 Net finance income/(cost)

Finance income

	2016 £ 000	2015 £ 000
Interest income on bank and other short-term deposits	-	6

Finance (cost)

	2016 £ 000	2015 £ 000
Interest on amounts owed to group undertakings	(272)	-
Interest on bank overdrafts and borrowings	-	(60)
Interest expense on convertible loan notes	-	(122)
Net foreign exchange losses on financing transactions	(271)	-
Total finance (cost)	(543)	(182)
Net finance (cost)	(543)	(176)

8 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	48	53

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.

9 Income tax

Tax (credited) in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax at 20.00% (2015: 20.25%)	(8,724)	(966)
Deferred taxation		
Arising from origination and reversal of temporary differences - UK	454	-
Tax receipt in the income statement	(8,270)	(966)

The Company incurs the majority of its losses in the UK. Its activities are subject to the standard rate for UK corporation tax, which for 2016 was 20.00% (2015: 20.25%).

9 Income tax (continued)

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

	2016 £ 000	2015 £ 000
Loss before tax at 20.00% (2015: 20.25%)	(41,566)	(6,246)
Tax (credit) at standard UK rate	(8,313)	(1,265)
Effects of:		
Net expenses non-deductible for tax purposes	43	42
Increase in current tax from adjustment for prior periods	(17)	-
Increase from effect of revenues exempt from taxation	(664)	(195)
Decrease from tax losses for which no deferred tax asset was recognised	1	452
Deferred tax expense (credit) relating to changes in tax rates or laws	(79)	-
Non qualifying assets	759	-
Total income tax credit	(8,270)	(966)

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.

Deferred tax

	Other timing differences including losses carried forward £ 000	Tax losses £ 000	Financial instruments £ 000	Total £ 000
1 January 2015	923	(923)	-	-
Charged/(credited) to the income statement	(262)	262	-	-
31 December 2015	661	(661)	-	-
Prior year adjustments	17	-	(11)	6
Charged/(credited) to the income statement	(215)	661	2	448
Acquisition/internal reorganisations/disposal of businesses	906	-	-	906
31 December 2016	1,369	-	(9)	1,360

There are £Nil deductible temporary differences (2015 - £41,849,000) and £44,000 of fixed assets (2015 - £255,000) for which no deferred tax asset is recognised in the statement of financial position.

10 Intangible assets

	Goodwill £ 000	Trademarks, patents and licences £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation				
At 1 January 2016	-	250	7,896	8,146
Additions	-	-	16,771	16,771
Acquired through business combinations	13,065	-	5,403	18,468
At 31 December 2016	13,065	250	30,070	43,385
Accumulated amortisation				
At 1 January 2016	-	100	1,451	1,551
Amortisation charge	-	54	1,654	1,708
At 31 December 2016	-	154	3,105	3,259
Carrying amount				
At 31 December 2016	13,065	96	26,965	40,126
At 31 December 2015	-	150	6,445	6,595

11 Property, plant and equipment

	Furniture, fittings and equipment £ 000
Cost or valuation	
At 1 January 2016	960
Additions	2
At 31 December 2016	962
Accumulated depreciation	
At 1 January 2016	898
Charge for the year	55
At 31 December 2016	953
Carrying amount	
At 31 December 2016	9
At 31 December 2015	62

12 Investments

Investments classified as non-current

Equity investments	Shares in group undertakings (subsidiaries) £ 000
Cost	
At 1 January 2015	21
Disposals	(1)
At 31 December 2015	20
At 1 January 2016	20
Additions (see note 14)	16,311
Dividend treated as return on investment of capital	(16,311)
At 31 December 2016	20
Net book value	
At 31 December 2016	20
At 31 December 2015	20

Immediately following the acquisition of Flowgem Limited, the trade and assets were hived up into Centrica Connected Home Limited ('CCHL'). In addition, a capital reduction was carried out by Flowgem Limited and a dividend of £16,311,000 was paid by Flowgem Limited to CCHL. CCHL treated this dividend as a return of capital investment and reduced the investment carrying value by an amount equal to the dividend.

12 Investments (continued)

Details of the equity interests of the Company in its subsidiary undertakings are as follows as at 31 December 2016:

Name of subsidiary	Principal activity	Class of shares held	Country of incorporation and registered address key	Proportion of ownership interest and voting rights held 2016	2015
Alertme.com, Inc.	Energy management products and services	Ordinary shares	United States / A	100%	100%
Alertme.com GmbH	Non-trading	Ordinary shares	Germany / B	100%	100%
Flowgem Limited	Non-trading	Ordinary shares	United Kingdom / C	100%	0%

Registered address key	Address
A	1521 Concord Pike #303, Wilmington, DE 19803, United States
B	Thomas-Wimmer-Ring 1-3, 80539, Munich, Germany
C	Millstream, Maidenhead Road, Windsor, SL4 5GD, United Kingdom

Flowgem Limited was acquired on 25 August 2016. Prior to the year end the trade and assets of Flowgem Limited were hived up into Centrica Connected Home Limited (see note 14 for further details).

13 Inventories

	2016 £ 000	2015 £ 000
Finished goods and goods for resale	8,263	8

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

The Company consumed £23,751,000 of inventories (2015: £2,453,000) during the year. Writedowns amounting to £272,000 (2015: nil) were charged to the income statement in the year.

14 Acquisitions - business combinations

Initial acquisition of Flowgem Limited

On 25 August 2016, the Company acquired the issued share capital of Flowgem Limited ('Flowgem') for net cash consideration of £11,730,000 and contingent consideration with a fair value of £4,581,000 (a total net consideration of £16,311,000). This UK-based business has developed an early stage technology to remotely detect water leaks, which enhances our connectivity offering in the UK and North America, adding new capabilities to the Hive product.

Subsequent to acquisition, there has been a delay in the expected roll-out of the leak propositions due to additional development required to the platform and infrastructure post-acquisition to bring the product to market. As a result, management has updated the fair value calculations relating to the contingent consideration giving rise to a credit of £3,321,000 in the Income Statement (see note 17).

Hive up

Following the acquisition, the trade and assets of Flowgem were hived up into the Company. This involved the software of Flowgem being reassigned, together with its net assets and business. Total cash consideration paid by the Company was £17,556,000, which was used in part by Flowgem to settle its inter company balance. The hive up was performed at fair value and using the principles of IFRS 3. The fair values assigned on the original acquisition of Flowgem were deemed to be appropriate fair values for the purchase of the trade and assets.

The amounts recognised in respect of the identifiable assets and liabilities acquired in the hive up are as set out in the table below:

	2016 £ 000
Assets and liabilities acquired	
Identifiable intangible assets (software)	5,403
Current assets including cash and cash equivalents	-
Non-current liabilities (deferred tax)	(912)
Total identifiable assets	4,491
Goodwill	13,065
Net assets acquired	17,556
Satisfied by:	
Cash	17,556

The goodwill of £13,065,000 arising from the hive up consists of enhanced synergies, growth opportunities and the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

Capital reduction

After the hive up, a capital reduction was carried out by Flowgem, followed by the payment of a dividend to the company of £16,311,000. The dividend receipt was recorded against the cost of the investment.

15 Trade and other receivables

	2016 Current £ 000	2015 Current £ 000
Trade receivables	4,120	19
Amounts owed by Group undertakings	16,256	3,333
Other receivables	18	486
Prepayments	-	121
Accrued income	1,350	-
	21,744	3,959

The amounts receivable from Group undertakings include £2,208,000 (2015: £nil) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.04 and 4.04% per annum during 2016 (2015: 2.36 and 2.88%). The other amounts receivable from Group undertakings are interest-free. All amounts receivable from Group undertakings are unsecured and repayable on demand.

16 Trade and other payables

	2016 Current £ 000	2015 Current £ 000
Trade payables	383	652
Accrued expenses	437	1,185
Amounts owed to Group undertakings	102,481	9,820
Social security and other taxes	-	122
Other creditors	-	298
	103,301	12,077

The amounts payable to Group undertakings include £26,873,000 (2015: £6,671,000) 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 other amounts payable to Group undertakings are interest-free. All amounts payable to Group undertakings are unsecured and repayable on demand.

17 Provisions for other liabilities and charges

	Other provisions £ 000
At 1 January 2016	35
Unused provisions reversed	(3,356)
Increase through business combinations	4,581
At 31 December 2016	1,260

Provisions brought forward relate to dilapidations on leased premises. Property costs are now paid for by another Group company and recharged and hence this provision was released to the Income Statement.

As detailed in note 14, deferred consideration arose on the acquisition of Flowgem. At the date of acquisition management estmated that £4,581,000 was contingently payable. Subsequently there has been a delay in the expected roll-out of the leak propositions due to additional development required to the platform and infrastructure post-acquisition to bring the product to market. As a result management has updated the fair value calculations relating to the contingent consideration giving rise to a credit of £3,321,000 in the Income Statement.

Provisions carried forward of £1,260,000 are in respect of deferred consideration (2015: £nil); £193,000 of which is due within one year (2015: £nil).

18 Post-employment benefits

Defined contribution pension scheme

The total cost charged to the income statement of £1,206,000 (2015: £75,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

19 Share capital and reserves

Allotted, called up and fully paid shares

	2016		2015	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.001 each	2,523	3	2,523	3
Preferred shares of £0.060 each	18,641	1,118	18,641	1,118
B preferred shares of £0.060 each	11,785	707	11,785	707
C preferred shares of £0.060 each	3,369	202	3,369	202
	36,318	2,030	36,318	2,030

Share premium

Consideration transferred in excess of the nominal value of shares is allocated to share premium.

Accumulated losses

The balance classified as accumulated losses includes the profits and losses realised by the Company in previous years that were not distributed to the shareholder of the Company at the balance sheet date.

20 Operating leases

At 31 December 2016 the Company had total future minimum lease payments under non-cancellable operating leases for property with the following maturities:

	2016 £ 000	2015 £ 000
Within one year	765	44
In two to five years	2,012	426
In over five years	273	-
	3,050	470

21 Other commitments and contingencies

As at 31 December 2016, the Company is obligated to the following commitments.

	2016 £ 000	2015 £ 000
Other commitments	4,018	-

Included within other commitments are stock purchase commitments of £2,520,000 (2015: £nil), advertising retainers for marketing purposes of £1,380,000 (2015 £nil) and other commitments of £118,000 (2015: £nil).

22 Related party transactions

The Company has taken advantage of the exemption within FRS 101 from disclosure of transactions with other wholly-owned Centrica plc Group companies and key management personnel compensation.

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Directors' emoluments	678	3,000
Contributions to pension schemes	49	-
	727	3,000

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid Director was £516,000 (2015: £1,526,000), and company pension contributions of £22,000 (2015: £nil) were made to a money purchase scheme on their behalf. The highest paid Director did not exercise any share options, but did receive shares under a long term incentive scheme.

During the year the number of Directors who received post-employment benefits and share incentives was as follows:

	2016 No.	2015 No.
Received or were entitled to receive shares under long term incentive schemes	1	2
Exercised share options	-	1
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	1	2

23 ***Parent and ultimate parent undertaking***

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

The ultimate parent 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.