

Satisfying the changing needs of our customers

Annual Review 2018



centrica

Group Highlights

Group Operational Performance

Total customer account holdings
– Consumer ('000)



Total customer account holdings
– Business ('000)



Total customer gas consumption
(mmth)



Total customer electricity
consumption (GWh)



Direct Group headcount⁽²⁾



Total recordable injury frequency
rate per 200,000 hours worked



Group Financial Summary

(Year ended 31 December 2018)

Group Revenue

£29.7bn

2017: £28.0bn
▲ 6%

Adjusted operating profit

£1,392m

2017: £1,247m⁽¹⁾
▲ 12%

Adjusted earnings

£631m

2017: £693m⁽¹⁾
▼ 9%

Adjusted basic earning per share
(EPS)

11.2p

2017: 12.5p⁽¹⁾
▼ 10%

Adjusted operating cash flow

£2,245m

2017: £2,069m
▲ 9%

Group net debt

£2,656m

2017: £2,596m
▲ 2%

Return on average capital employed
(ROACE)

13%

2017: 14%
▼ 1ppt

Statutory operating profit

£987m

2017: £481m⁽¹⁾
▲ 105%

Statutory profit for the year
attributable to shareholders

£183m

2017: £328m⁽¹⁾
▼ 44%

Statutory basic earning per share

3.3p

2017: 5.9p⁽¹⁾
▼ 44%

Statutory net cash flow
from operating activities

£1,934m

2017: £1,840m
▲ 5%

Net exceptional charge after taxation
included in statutory profit

£235m

2017: £476m
▼ 51%

(1) Restated for adoption of IFRS 15: revenue from contracts with customers.

(2) Direct Group headcount excludes contractors, agency and outsourced staff.



Read more about our Key Performance Indicators
Pages 18 to 19

† We engaged PricewaterhouseCoopers (PwC) to undertake a limited assurance engagement over 19 metrics highlighted with the symbol '†' throughout the Annual Review. See page 238 of the Annual Report and Accounts 2018 or centrica.com/assurance for more details.

Unless otherwise stated, all references to operating profit or loss, taxation, cash flow, earnings and earnings per share throughout the Strategic Report are adjusted figures, reconciled to their statutory equivalents in the Group Financial Review on pages 36 to 40. See also notes 2, 4 and 10 to the Financial Statements in the Annual Report and Accounts 2018 available at centrica.com/ar18

Group Snapshot

The world of energy is changing and, with our chosen businesses, distinctive propositions and current capabilities, Centrica is well placed to deliver for its customers, shareholders and for society. We aim to be a good corporate citizen and an employer of choice.

Our areas of focus for growth are Energy Supply, Services, Connected Home, Distributed Energy & Power, Energy Marketing & Trading. We also have a material Exploration & Production division.

We supply energy and services to over 25 million customer accounts mainly in the UK, Ireland and North America through strong brands such as British Gas, all supported by around 15,000 engineers and technicians. We are focused on delivering high levels of customer service, engagement and loyalty.

Technology is increasingly important in the delivery of energy and services to our customers. We are developing innovative products, offers and solutions, underpinned by investment in technology. In 2017 we announced the creation of a new venture 'Centrica Innovations' to identify, incubate and accelerate new technologies and innovations.

At the end of 2017, phase one of Centrica's repositioning was complete. We have simplified our business and portfolio. We now have just three divisions – Centrica Consumer, Centrica Business and Exploration & Production. Our asset portfolio has been materially repositioned.

We have delivered cumulative annual savings of £940 million since 2015. 2018 exceptional restructuring charge of £170 million taking total exceptional restructuring costs 2016–18 to £486 million. We are seeing encouraging signs of progress in our customer-facing businesses. A further £250 million of savings are expected in 2019 taking cumulative annual savings relative to 2015 close to the £1.25 billion 2020 target.



Read more about Our Strategy
Pages 14 to 15



Read more about Our Business Model
Pages 16 to 17

Contents

Strategic Report

2	Centrica at a Glance
4	Chairman's Statement
8	Group Chief Executive's Statement
14	Our Strategy
16	Our Business Model
18	Key Performance Indicators
20	Business Review
28	Digital Transformation
30	Centrica Consumer
32	Centrica Business
34	Exploration & Production
36	Group Financial Review
41	Our Principal Risks and Uncertainties
52	Our Stakeholder Engagement
56	Delivering our Responsible Business Ambitions

Governance

66	Summary Directors' and Corporate Governance Report
78	Summary Remuneration Report

Financial Statements

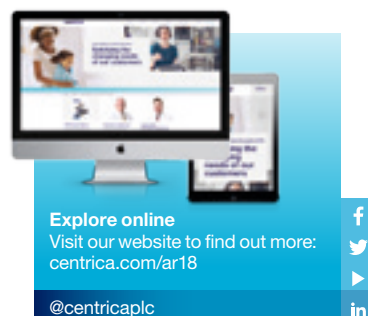
83	Independent Auditor's Report
84	Summary Financial Statements

Other Information

86	Shareholder Information
88	Glossary

The full Annual Report and Accounts 2018 is available on our website centrica.com or shareholders may obtain a printed copy, free of charge, on request to the Company.

The independent auditor's report on the full accounts for the year ended 31 December 2018 was unqualified, and their statement under section 496 (whether the Strategic report and the Directors' report are consistent with the accounts) of the Companies Act 2006 was also unqualified.



Explore online
Visit our website to find out more:
centrica.com/ar18

@centricapl



Centrica at a Glance

Our purpose

Providing energy and services to satisfy the changing needs of our customers.

Centrica Consumer

UK Home

Supplying competitive and reliable energy to residential customers in the UK, and providing innovative services and solutions that help to keep their homes warm and working.

Ireland

Supplying competitive and reliable energy and energy services to residential and business customers across Ireland.

North America Home

Supplying competitive and reliable energy and providing home services to customers in North America.

Connected Home

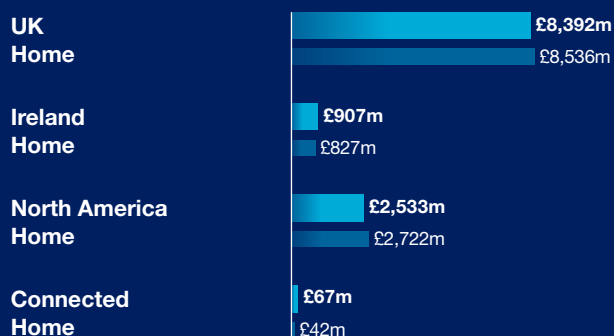
Helping customers get more from their homes, providing automation, energy management and peace of mind through our award-winning range of Hive connected home devices, software and services.



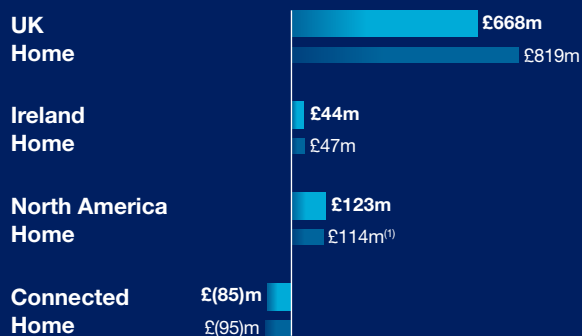
Read more about Centrica Consumer on Pages 20 to 23 and 30 to 31

Our performance

Breakdown of gross revenue



Breakdown of adjusted operating profit/(loss)



(1) Restated for adoption of IFRS15: Revenue from contracts with customers

2018 Figures
 2017 Figures

Centrica Business

UK Business

Supplying energy and services to a diverse range of business customers in the UK, using a variety of products tailored to meet their differing needs and help them more effectively manage their energy consumption and costs.

North America Business

Supplying competitive and reliable electricity and natural gas and energy services to retail and wholesale customers across North America.

Distributed Energy & Power

Providing industrial and commercial customers with the ability to use energy more intelligently, giving them the tools to generate and manage their energy usage under the Centrica Business Solutions brand.

Energy Marketing & Trading

Providing risk management and wholesale market access for the Group, building on strong cross-commodity trading capabilities and a global presence in LNG.

Central Power Generation

Generating power from our 20% interest in eight nuclear power stations in the UK and managing the output from a tolling arrangement with Spalding Power Station.



Exploration & Production

Spirit Energy

Targeting a sustainable, self-financing Exploration & Production (E&P) business, producing around 50 million barrels of oil equivalent a year, focused on the North Sea (the UK, the Netherlands, Norway and Denmark).

Centrica Storage

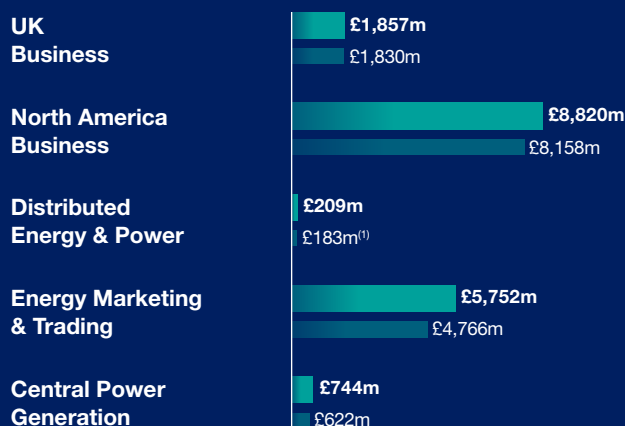
Operating the Rough gas field in the UK North Sea, which has been converted from a storage asset to a producing asset before decommissioning.



Read more about Centrica Business on Pages 24 to 26 and 32 to 33

Read more about Exploration & Production on Page 27 and pages 34 to 35

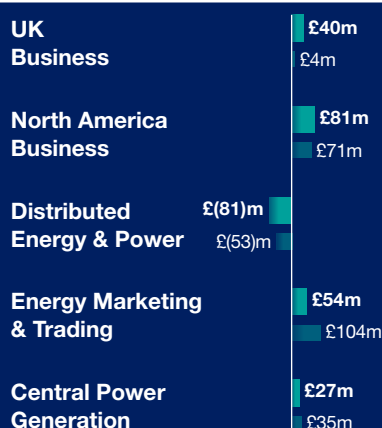
Breakdown of gross revenue



Breakdown of gross revenue



Breakdown of adjusted operating profit/(loss)



Breakdown of adjusted operating profit/(loss)



- (1) Restated for adoption of IFRS15: Revenue from contracts with customers
 (2) Restated to include Centrica Storage

2018 Figures
 2017 Figures

2018 Figures
 2017 Figures

Chairman's Statement



26,276

thousand customer accounts
(includes 5,560 DE&P sites)

30,520

Direct Group headcount

After five years as Chairman of Centrica, this marks the end of my time helping to guide the destiny of this great company. So, I think it is a good moment to reflect on all that has happened and offer my perspective on the ways in which the energy markets, the political environment and the business have evolved over that time.

It has been a period of many changes and challenge, both externally and internally. The political tectonic plates have moved in ways that have proved very difficult to predict, culminating in Brexit in the UK and the election of President Trump in the US.

Since the Global Financial Crisis, public trust in business has steadily eroded. We in the corporate sector must shoulder our share of the blame for that. We certainly have not argued the case for business and free markets as effectively as we could have done.

Equally, governments and regulators, encouraged by pressure groups and the commissars of social media, have taken advantage of the prevailing mood to pursue interventionist and populist policies which have damaged investor sentiment and business confidence without achieving their purported objective of benefiting consumers to any great extent.

The business Zeitgeist has been that disruption is good. In many sectors, new entrants with new ways of working have undoubtedly brought benefits to consumers in the shape of increased choice and affordability. But there have also been unintended consequences – less secure employment, distorted markets, more tax avoidance and insufficient consideration of what healthy future enterprise ecosystems might comprise.

Meanwhile, Centrica continues to be exposed to commodity prices and weather which have experienced even greater volatility in recent times. Our control over the external environment is very limited.

This has been the unsettled context of my time at Centrica. The company I joined was very different from today's – a vertically integrated, more asset heavy, energy-focused conglomerate with a poor record of serving many of its customers. It was already apparent at the very beginning of my tenure that this resource-led business model, constructed at great cost, was unsustainable.

Something had to change if Centrica was to have a long-term future. So, we developed a new strategy which offered the chance to restore the Company to profitable growth. This involved re-engineering the business in mid-flight while the context around us was constantly changing.

The strategy we launched in 2015 was based on a reaffirmation of our core purpose "to provide energy and services to satisfy the changing needs of our customers". It consisted of three elements: reshaping the portfolio of businesses; becoming materially more efficient; and developing new engines of growth. We also sought to shift the Company's narrative and its relationship with stakeholders.

We have been largely successful in achieving the first and second elements. We have re-focused more investment on our customer-facing businesses and become simpler as an organisation, divesting many of our asset-based operations; we have developed new capabilities – in our traditional energy supply and services businesses, and in our newer distributed energy and connected home activities – as we adapt to a more decentralised energy market where advances in technology are placing control in the hands of our customers. We have also run a disciplined cost efficiency programme which has helped to protect our cash flow, credit rating and dividend over the past four years.

“We provide heat, light and essential services to millions of households and businesses; we help to secure vital energy supplies for the nation; we generate significant economic benefits through jobs, investment and our supply chain. This is a great business which I am confident has a great future.”

When it comes to the third element of our strategy – developing new engines of growth – we are not there yet, but the signs are encouraging. Our customer segmentation and proposition development capabilities have advanced beyond recognition in my time with the Company, while we have seen material growth rates in Connected Home and Distributed Energy & Power. This is evidence that we are evolving our offerings to meet the changing needs of our customers.

Improving our relationship with our stakeholders is also a work in progress.

We have made great efforts to provide a better service to our customers, with some encouraging results. Complaints are down in energy supply in all our geographies. But we still have a long way to go in rebuilding trust, which is essential if we are to retain customers in a world of price caps.

Our employees have been extremely loyal and hardworking through a time of constant change; a significant reduction in the number of posts across the business; the sale of assets; and the creation of new functions. I would like to thank every one of our people, not just for the past year, but for my entire time at Centrica. They are a credit to the business.

With the UK Government and regulator we have had our well known differences and we made clear our opposition to the price cap on all default tariffs. Although we accept the implementation of the cap and are now focused on continuing to serve our customers effectively under it, we have requested a judicial review of some of the assumptions which underly it.

Whatever our disagreements, we have always tried to engage constructively with governments of any stripe and to behave as a good corporate citizen with a social conscience and a key contributor to the economic prosperity of the countries in which we operate.

For our shareholders the past few years have been a bumpy ride. But despite short-term setbacks and a historically challenging external environment, I am confident that our strategy is the best way to restore growth and ensure the survival of a great British business. It is difficult to see how sticking to Centrica's old business model would have produced a better short-term or long-term outcome for our shareholders.

During my time in the boardroom we have found ourselves deep in discussion on a very wide range of topics. The strategic discussion never ends. Are we developing the cash flows and the disciplines that we need? What are our profitable growth prospects? Do we have the right capabilities? Is our remuneration structure and policy fit for purpose?

We have deliberated at length about the shifting skills base. We have made great efforts to develop the truly representative workforce which a 21st century organisation requires. We know that we need to push diversity harder to achieve that. This applies just as much in the boardroom as it does in the rest of the business.

Board succession and planning has been at the forefront of our minds in 2018 as numerous changes took effect which will significantly alter the dynamic of the Board for the next few years. We embrace the importance of diversity and inclusion in all Board recruitment and we support the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity. We are actively seeking to achieve a broader, more diverse Board composition. But we acknowledge that we must improve our record in this area.

As part of a structured and continuous Board succession programme, three of our Executive Directors, Mark Hanafin, Jeff Bell and Mark Hodges, have stepped down from the Board and have been succeeded by Richard Hookway, Chris O'Shea and Sarwjit Sambhi, respectively. I would like to extend a warm welcome to Richard, Chris and Sarwjit and to thank Jeff, Mark and Mark for the valuable service they have given to Centrica.

I would also like to welcome two new Non-Executive Directors to the Board, Pam Kaur and Kevin O'Byrne. Pam joined the Board in February 2019 and has considerable experience of audit, compliance, finance and risk management which will be of significant benefit to the Board. Kevin, who brings a wealth of retail and finance experience, joins the Board in May 2019 and will succeed Margherita Della Valle as Chairman of the Audit Committee. Margherita will retire from the Board in May having completed her nine-year term in office. I would like to thank Margherita for her hard work and contribution to Centrica over that period.

Further information on all of these Board changes is set out in my Governance Statement and in the report of the Nomination Committee, both of which can be found in the Governance section of this Annual Report.

We also announced in December that, after 22 years with the Company, our Group General Counsel & Company Secretary, Grant Dawson, has elected to retire on 31 March 2019. Over a long career with the Company, Grant has been a valuable guide to the Board and executive team and a real servant of Centrica. He is succeeded by Justine Campbell, who has been at Centrica since 2013 and has in-depth legal and regulatory experience in both the energy and telecommunications sectors.

As you read this, as announced in May 2018 I will have departed my role as Chairman. It has been both a privilege and stimulating challenge to lead the Board. But now that our portfolio restructuring is coming to an end, I felt that it was the right time to go. We are fortunate to have in my successor Charles Berry someone ideally suited in talent, temperament and experience to guide the Board as Centrica returns to sustainable long-term growth and further develops its new narrative.

Last year I announced that I had asked our Non-Executive Director, Joan Gillman, to provide reassurance that the voice of our people is being heard loud and clear in the boardroom. I am pleased to say that Joan has been effective in doing this and I would like to thank her for her input in this key area.

Good employee engagement is vital for the future of Centrica. Without it, we cannot hope to serve our customers to the best of our ability or develop the attractive new propositions that we need to survive in such a competitive environment. In recent years, our record has been disappointing. Happily, our employee engagement scores improved in 2018, but remain well below where we want them to be. We must continue to do more to support our people.

As Centrica looks to the future, many questions remain to be answered. Can our mix of businesses grow? Can we remain competitive by continuing to drive efficiency gains? Can we rebuild the trust of customers in a world of price caps? Can we further improve our risk management and mitigation? Can we build the muscles and demonstrate agility to be able to respond to changed circumstances quicker and more effectively?

The answers to those questions are grounded in the strategy which we developed in 2015. We took a long, hard look at the Company and we felt that we had a duty to take this great Company and create a future for it.

We knew that market and political conditions would be turbulent and volatile, so we asked ourselves: "Is this a strategy that is good for all seasons?" I believe the answer to that question is "Yes", even with events that we could not have foreseen at the time, including Brexit.

We can argue about the nuances of the portfolio balance we have created. But we have preserved cash flow and the dividend and that speaks volumes. That by itself is not enough to prove the Company can grow. But we have laid the groundwork on which I am confident my successor will build.

I hope this marks a point where Centrica is on a far more positive footing. At a time when our national economy faces great uncertainty and emerging threats, it is worth reflecting on the importance of Centrica as a business for the UK. We provide heat, light and essential services to millions of households and businesses; we help to secure vital energy supplies for the nation; we generate significant economic benefits through jobs, investment and our supply chain. This is a great business which I am confident has a great future.

Rick Haythornthwaite
Chairman

20 February 2019



Read more about our
workforce engagement on
Page 76

Introducing our new Chairman

“I have known Centrica since its inception over 20 years ago, first as a competitor when I was at Scottish Power, then during my time as chairman of Drax up to 2015.”

Charles Berry

So it is a special privilege for me to take on the role of Chairman at a company that I have long recognised and admired.

I have enjoyed starting to get under the bonnet of Centrica over the past few months by immersing myself in the business, visiting sites across the globe – from Staines to New Jersey – and familiarising myself with our activities: everything from energy supply and services, energy marketing and trading, to the innovations we are developing to benefit our customers.

What I have seen is richer and deeper than I expected – and my expectations were already high. I have witnessed the extensive commitment and quality of our colleagues and the diverse range of their capabilities. This is reassuring, given the challenges we face.

I have nearly a quarter of a century of personal experience in and around the energy sector. I hope to bring all this to bear in helping to craft a way forward for Centrica and supplementing the already considerable skills of my Board colleagues.

As a member of the steering group of the Hampton-Alexander Review, I am deeply committed to the need for and the benefits of diversity. There is strength in diversity, both at Board and team level, and Centrica is clearly focused on achieving that.

Rick has worked hard throughout his time as Chairman to refresh the Board and nurture its evolution. I'm delighted to welcome to the Board Pam Kaur and Kevin O'Byrne as our new Non-Executive Directors, Chris O'Shea, Sarwjit Sambhi and Richard Hookway as new Executive Directors and Justine Campbell as Group General Counsel & Company Secretary. I look forward to working with them all. I would also like to pay tribute to Rick for his calm and insightful leadership of the Board over the past six years.



It is a truism that we face serious challenges as a business. To my mind, none is greater than climate change. Extreme weather events around the world make it ever more evident that companies need to address this issue and it is clear to me that Centrica can make a big contribution.

We have developed new capabilities – such as Distributed Energy & Power – which are completely consistent with a more effective approach to tackling climate change. As a Group, we are strategically positioned to respond effectively to the three driving forces of change in our sector – decentralisation, digitisation and decarbonisation.

As I look forward to my time guiding the deliberations of the Board, I will also be looking to ensure that we continue to improve our engagement with all our stakeholders. In particular, in line with the UK's new corporate governance code, which came into effect this year, Joan Gillman has taken on the role as designated Non-Executive for engagement with our employees.

It is important for you to know that we are not doing this simply to tick boxes, but because it is the right thing to do and will make the business stronger. I look forward to Joan developing her role and inputs to the Board through 2019 and beyond.

These are difficult times for businesses and Centrica is no exception. We face intensifying competition, political uncertainty and regulatory intervention. But I am confident that our range of capabilities and the skills of our people will ensure a bright and prosperous future for the Company. I very much look forward to being part of it.

 **Read more about Corporate Governance on**
Pages 66 to 82

Group Chief Executive's Statement



0.06[†]

process safety
incident frequency rate
(Tier 1 and 2)

£248m

2018 efficiencies
delivered

2018 was another year in which we had to navigate key uncertainties in our operating environment, including volatile commodity prices and an impending price cap in the UK energy market. Our focus has been on what we can control, driving underlying performance delivery and ensuring financial discipline as we continue to prioritise our resources towards satisfying the changing needs of our customers in energy and services. The Centrica team did all of this well and ensured we did not take our eyes off our top priorities of safety, compliance and of course improving the customer experience.

Ensuring the safety of our people, partners and customers is of huge importance to Centrica. We delivered a significant improvement in our process safety performance in 2018, particularly in our Morecambe and Centrica Storage operations, where we had 0.06[†] Tier 1 plus Tier 2 process safety events per 200,000 hours worked relative to 0.14 in 2017. This puts us in the top quartile of UK companies. Driving safety improved and customer injuries were reduced by over 10%. However, our personal and occupational safety performance did not improve overall with a total recordable injury frequency rate slightly higher than in 2017, due in large part to musculoskeletal injuries in our smart meter operations in the UK.

For our customers, across both Consumer and Business divisions, we have been focused on increased personalisation of offers, increased digitalisation of the customer experience and customer journeys, and provided new propositions and services which our customers clearly value. At the same time, enhanced segmentation has allowed us to place a stronger focus on customer lifetime value. In both divisions, we have continued to invest in customer service and our Net Promoter Scores have been stable.

For our shareholders, we remain committed to delivery of long-term shareholder value through returns and growth. We fully recognise that, following our disappointing Trading Update in November 2017, we began 2018 from a low base and once again the year had its fair share of challenges. From that starting point we did make some progress and in relative terms, Centrica's total shareholder return during the year was competitive when compared to the FTSE 100.

Our financial performance in 2018 was mixed. At the headline level, we delivered resilient performance with adjusted operating profit up 12% at £1.39 billion and adjusted operating cash flow and net debt within our target ranges. Adjusted operating cash flow was above the midpoint of our target range at £2.24 billion. However, volumes in Spirit Energy and Nuclear were disappointing and recovery in North America Business was slower than expected.

As we begin 2019, we face an unusual combination of headwinds including a larger than expected impact of the UK default tariff cap, continuing lower volumes in Exploration & Production and Nuclear, and higher forecast cash taxes. These headwinds will be partly offset by significant continuing efforts to drive cost efficiency. However, this means that, at prevailing forward commodity prices, our 2018–20 target range for average adjusted operating cash flow of £2.1–2.3 billion is under some pressure. In these circumstances, we are targeting adjusted operating cash flow in the range £1.8–2.0 billion at current forward commodity prices, which have fallen significantly over the past five months and assuming normal weather patterns. This means that on current projections, after the first two years of our 2018–20 three-year performance period, we would still be at or slightly below the bottom end of our target range. We did signal a year ago that there could be particular pressure in 2019, especially in the circumstances of a then-unknown price cap in the UK.

[†] Included in PwC's limited assurance engagement. See page 238 of the Annual Report and Accounts 2018 or centrica.com/assurance for more details.

“Our aim is to be an international 21st-century energy and services company and to deliver for the changing needs of our customers. There are clear signs that customers want more than energy supply alone, and combining energy supply with other services creates a valuable needs-based set of propositions for them.”

In response, we are taking actions to strengthen the balance sheet and improve the outlook for 2020, including driving cost efficiency hard, being disciplined in our capital spending, and targeting further divestments, and as a result, net debt levels remain underpinned.

In February we announced that we will be making additional non-core divestments totalling £500 million in 2019, starting with the agreed sale of our Clockwork Home Services portfolio in North America for £230 million. We expect capital reinvestment in 2019 to be around £1.0 billion as we drive quality and choice into our investments. We are also targeting £250 million of efficiencies in 2019 which would mean delivery of our 2020 target one year early. As a result of these actions, we expect to maintain Net Debt within our targeted 2018–20 range of £2.7–3.7 billion (which has been restated for the effects of IFRS 16). Finally, we are targeting further efficiencies of £500 million per annum beyond the end of 2019 as we pursue being “the most efficient price setter” in all of our markets. These actions will underpin our performance, resilience and competitiveness for the medium term. This is a challenging start to 2019, and the environment and trading conditions for the rest of the year remain uncertain. We will know much more at the time of the Interim Results in July, including having a much clearer view of the likely outturn of commodity prices for 2019, market dynamics under the UK price cap and the performance of both the Nuclear fleet and Spirit Energy assets, including early indications from Spirit Energy’s drilling West of Shetland. We will also know more at that time about the prospects for a trade sale of our Nuclear investment.

Having reviewed our financial performance, let me turn to our strategy. Centrica’s strategy is built around the underlying trends of decentralisation and decarbonisation of the energy system, customers becoming more powerful and desiring new propositions, and digitalisation which continues to accelerate change in both energy and related services. We are responding by reshaping the Company to face that future and building the capabilities we need to respond to the changing energy landscape and to satisfy those changing needs of our customers. During 2018, we have continued to develop material new customer-facing capabilities in both Consumer and Business, exposing Centrica to an expanding opportunity-set in terms of customers, channels, propositions and geography. We have significantly deepened Centrica’s capabilities in technology, engineering and innovations which in turn are enabling new solutions for our customers. I recognise we have further work to do if we are to overcome some of the competitive pressures on the traditional energy supply businesses and net grow our customer-facing margins overall. However, we now have access to new growth opportunities outside our traditional, more mature markets and in many of our businesses we are seeing some encouraging indications of stabilisation and growth potential.

In Consumer, our digital transformation programme, which has resulted in more interactions taking place online, has helped to improve the overall customer experience, and our retention rates have shown an encouraging uplift. We have more than two million customers participating in our Rewards programmes, and in the UK this has led to a halving of customer churn. In UK Home energy supply, we saw a reduction of 742,000 customer accounts, slightly more than we had expected due to two price increases during 2018. Combined with the growth in Home Services and Connected Home, total customer accounts in Centrica Consumer fell by 248,000 over the year and in the second half of the year, the reduction was 23,000. This compares to a reduction of 1.4 million accounts in 2017. We saw net growth in consumer account relationships in our in-home services businesses in North America and also in the UK for the first time since 2010. Our total consumer relationships have therefore fallen by less than 1% out of over 25 million in total and we are gaining valuable new customers in products and services with attractive margins, many on a subscription basis. In Connected Home, the number of subscription customers more than doubled, revenue was up by 60% and we added 444,000 customers, close to our external target of 500,000 and in line with the sort of progress we would expect from a fast-growing business.

In the Business division, customer account numbers were down slightly, and within that, we have seen a good recovery in UK Business with new propositions driving growth in the small and medium enterprise customer segment. Across the division there was a focus on higher value segments in both the UK and North America. In Distributed Energy & Power, our leading indicators showed evidence of significant forward momentum during the year. The order book was up by 51% and order intake by 158% compared to 2017 and we grew revenue by 14%. The acquisitions that we made over the last few years – in areas including wireless energy insight and management (Panoramic Power), combined heat and power generation (ENER-G Cogen), demand-side response (REStore) and distributed energy management (Neas Energy) – continue to perform better than we had expected, and the capability that they have brought has enabled the creation of our Integrated Solutions Platform with a single user interface. North America Business profitability improved, recovering somewhat from the lows of 2017, but not as swiftly as we had expected. Competitive pressures in electricity retailing in the US remained strong and margins continued to be squeezed. Although total customer account holdings were down 65,000 during 2018, this partly reflects a focus on value over volume, as we optimise customer segments and sales channels.

Along with the undoubted progress, there have been disappointments, particularly in our asset businesses of Exploration & Production and UK Nuclear power generation.

In December 2017, Spirit Energy, in which we own 69%, was established as a separate company in partnership with Stadtwerke München. Oil and gas production from Spirit Energy in 2018 was lower than expected, reflecting unplanned outages and operational issues in both operated and non-operated fields. Our strong focus on process safety has resulted in marked improvement but resulted in longer outages before restarting our Morecambe field. In January 2019 it ran very well. We also have to re-drill a key well in the Greater Markham area, and we experienced production availability and decline issues in key non-operated fields in both the UK and Norway. Centrica Storage became a producing asset in 2018 and performed very well, both in safety and production terms.



Although production was disappointing, we are encouraged by Spirit Energy's agreement to farm into Hurricane Energy's interest in the Greater Warwick Area and to fund a \$180 million (£139 million) drilling campaign West of Shetland. Spirit Energy overall is now a sustainable, standalone European E&P operation. The immediate focus is on improving performance, strengthening the portfolio, and creating the option for new shareholding arrangements, either through further industry consolidation or potentially an IPO. Centrica continues to have a non-operated 20% interest in the existing Nuclear generation fleet in the UK. Performance in Nuclear was affected by extended inspections and outages at the Hunterston B and Dungeness B power stations which resulted in lower output for the year. These issues, and associated regulatory oversight before the stations can re-start are extending into 2019. As part of our strategic repositioning, we announced our intention to divest our 20% stake in the UK's existing nuclear power fleet by the end of 2020, and a sales process is underway.

Moving from 2018 operations and turning to business development, we are continuing to ensure that we are well positioned to participate in the global natural gas market, and have a diversified portfolio of supplies, as well as the ability to optimise them. We have signed a sale and purchase agreement in strategic partnership with Tokyo Gas to jointly purchase 2.6 million tonnes per annum of liquified natural gas (LNG) from the Mozambique LNG project from the start-up of production until the early 2040s. This is the first long-term LNG procurement contract in Africa for both Tokyo Gas and Centrica. This innovative joint procurement approach takes full advantage of Mozambique's central location between Europe and Asia, assisting both Centrica and Tokyo Gas to proactively manage demand fluctuations across regions with different market dynamics. We have expanded North America Business through small acquisitions, including a portion of BP's US marketing operation and the retail energy provider Source Power & Gas. In Distributed Energy & Power we made two small acquisitions to expand our solar solutions capacity in the US. In Connected Home, we continued to expand our retail channels beyond the UK, with Hive

“We have refreshed our point of view on climate change and set out a new ambition to enable all our customers to use energy more sustainably.”

products now available for sale on Amazon in the United States, Canada, and in Italy and France. We are also expanding the product portfolio, launching propositions and services such as Hive Link focused on providing peace-of-mind to our customers.

Just as we are building new business, we must also have a strong focus on optimising our portfolio of businesses and ensuring we are delivering attractive returns from positions in which Centrica has a competitive advantage. We announced the intention to divest of a further £500 million of non-core positions, and as a first step have agreed the sale of our Clockwork franchise services business in North America for £230 million. Following a strategic review, we concluded that it has been hard for us to grow this business, to cross-sell other propositions through it, and that this branded portfolio would naturally fit with another owner intent on building a franchise business in the US. The sale of Clockwork will also help with our priority to simplify our portfolio of brands and channels, to make Centrica more coherent for our customers. We also plan to dispose of further non-core assets during the year, including possible capital recycling in both Exploration & Production and in Distributed Energy & Power.

Given the competitive pressures we are dealing with every day, we continue to have a very strong focus on being as efficient as we can be, so we can serve our customers well and be as competitive as possible.

In our core cost efficiency programme we delivered a further £248 million of savings in 2018 plus additional savings in other areas of £38 million. That means we have now taken nearly £1 billion a year out of our like-for-like cost base since 2015. 2018 total controllable costs are 7% lower than in 2015, with the Group having more than absorbed the effects of inflation, foreign exchange movements and additional operating cost investment in growth.

We have much more to do in our efficiency programme and in 2019 we intend to deliver a further £250 million of savings. That means that we will have exceeded our 2020 target of an additional £500 million savings a year early. At our Preliminary Results in February, we announced a further £500 million per annum of additional efficiencies beyond the end of 2019 as we target becoming the “most efficient price setter” in all of our markets. Delivering on this would take our total like-for-like efficiency delivery relative to a 2015 baseline to £1.75 billion per annum by the end of 2021.

I would now like to turn briefly to the broader context in which we operate. The trends I outlined earlier, which we identified when we launched our new strategy in 2015, are even clearer today and are playing out in line with our views at the time. We are in step with where the energy world is going and the services which our customers desire, and we believe our 2015 strategy is still valid today and plays to the core strengths of the Company.

Our aim is to be an international 21st-century energy and services company and to deliver for the changing needs of our customers. There are clear signs that customers want more than energy supply alone, and combining energy supply with other services creates a valuable needs-based set of propositions for them. The evidence is clear that the unit gross margins of energy and services relationships are higher than in energy supply alone. That is what our strategy is all about – shifting the centre of gravity of our relationships with customers towards more value-added services. While there is much yet to be done, we are beginning to demonstrate our ability to become the customer-facing, international energy and services company that we set out to be when we launched our new strategy in 2015.



We have introduced a new set of Responsible Business targets as we respond to the changes in societal expectations. Our Responsible Business Ambitions set out long-term targets to enhance our impact in areas where we have the greatest responsibility and where we are well placed to make the biggest difference. Our strategy is to satisfy the changing needs of our customers, deliver long-term shareholder value through returns and growth, be a trusted corporate citizen, an employer of choice, and a 21st-century energy and services company. To live up to this, our key responsibilities include responding to the challenge of climate change, innovating to improve our customers' lives, developing our workforce to deliver for our customers in the long term and create stronger communities.

As part of this, we have refreshed our point of view on climate change and set out a new ambition "to enable all our customers to use energy more sustainably". Our actions will focus on three areas: helping our customers reduce emissions in line with the goals of the Paris Agreement; enabling a decarbonised energy system; and reducing our own emissions in line with Paris. We have clear ambitions out to

2030 in each of these areas, underpinned by shorter-term targets. For example, having reduced our own emissions by 80% over the last decade, we are targeting a further reduction in our internal carbon footprint of 35% from 2015 to 2025. We have other targets to help our customers reduce their emissions through both our direct and indirect actions, and to deliver flexible distributed and low carbon technologies and provide system access and optimisation services to them. In line with the Task Force on Climate-related Financial Disclosures (TCFD), we are committed to continuously improving our climate change disclosure to show how our strategy reduces risk and delivers a smooth transition to a lower carbon future.

We have devoted considerable effort to prepare for the UK exit from the EU, with a focus on the risks of a 'no deal' outcome for the Group and our customers. While the energy sector is likely to be less affected than some other parts of the UK economy, there are still some material issues for us, both financially and in ensuring business continuity. In financial terms, we are exposed like many others to a weakening of sterling, which would also impact the cost of energy for our customers.

In continuity terms, we have taken precautions such as increasing UK stocks of EU-sourced equipment to maintain customer service in the event of delays at UK ports. Our Energy Marketing & Trading business, which operates widely across Europe, also took measures to maintain those operations in a 'no deal' scenario.

We have many EU nationals who work for Centrica in the UK. So, we were pleased with the Government's proposals for Settled and Pre-Settled Status for EU nationals, which will apply even in a 'no deal' scenario, and the subsequent decision to waive any application fees. We warmly welcomed the EU Withdrawal Agreement provisions aimed at maintaining the Single Electricity Market on the island of Ireland, in which Bord Gáis Energy participates. We were also very pleased to see energy included within the scope of the proposed Political Declaration on the future UK relationship with the EU. This paves the way for further detailed negotiations after Brexit to maintain a close energy and climate relationship supporting cost-efficient, clean and secure supplies of energy.

Key events in 2018

January

Centrica Innovations invests in EtaGen



Read more about EtaGen on Page 60

March

Centrica announces expansion of Local Heroes to include painters, decorators, locksmiths and tilers

June

Tokyo Gas and Centrica sign Heads of Agreement

Centrica invests in Barrow Green Gas, the UK's largest green gas shipper



Read more in the Business Review on Page 26

February

Roll-out of Centrica Business Solutions in North America

April

British Gas announces default tariffs to increase due to rising wholesale energy and policy costs

July

Centrica Business Solutions launches in Ireland



Read more at centrica.com/ireland

The price cap on default energy tariffs in the UK came into effect on 1 January 2019. We regret that we were unable to persuade the Government and regulator not to implement the cap which we do not believe is a sustainable solution for the market, and is likely to have unintended consequences for customers and competition. We presented a clear alternative with our '14-point plan' to reform the retail energy market, which included a proposal to end all Standard Variable Tariffs and open-ended contracts, a step which we believe would benefit all consumers and which we have taken unilaterally for new customers.

Despite the significant near-term negative impact of the price cap on our earnings and cash flow, particularly in 2019, we are focused on delivering a sustainable and attractive business in UK energy supply and have already implemented a number of mitigating actions, including cost efficiencies of £20 per dual fuel energy supply customer by 2020. However, Ofgem's revision to the methodology for calculating supplier wholesale costs is expected to result in a one-off negative adjusted operating profit impact of around £70 million in the initial period of the cap in Q1 2019. In December, we announced we

would be seeking judicial review of Ofgem's decision relating only to the treatment of wholesale cost transitional arrangements for the first period of the cap. Based on the normal timelines for judicial reviews we would expect the process to be concluded in six to nine months.

During 2018, we saw several significant changes in the leadership of Centrica, both at Board level and on our Executive Committee. I would like to welcome Charles Berry as Chairman and to thank Rick Haythornthwaite for his leadership of the Board over the last six years, and his guidance and support for me over the last four. I would also like to thank the outgoing Executive Directors – Mark Hodges, Mark Hanafin and Jeff Bell – for what we have achieved together.

Our new team is already in place, filled through both internal and external appointments. I am confident that we have the leadership needed to guide Centrica through the next phase of our development during 2019 and beyond.

Finally, I want to thank the whole Centrica team for the extraordinary amount of hard work which they have put into the

business as they faced a very difficult set of circumstances, including uncertainty from continuing high levels of organisational change and cost reduction. Centrica's Values – Care, Collaboration, Courage, Agility and Delivery – are becoming broadly embedded in the organisation, helping to guide all of us as we work to create the excellent customer-facing company we all wish to be part of. As regards employee engagement, although I recognise that we still have a long way to go in making sure that everyone at Centrica feels truly valued, we focused strongly on our people's feedback from 2017 and I am pleased that we have improved our engagement scores. Improving employee engagement will remain an area of focus.

Iain Conn
Group Chief Executive

20 February 2019

August

Centrica closes contract for onshore wind farm in Sweden

Centrica invests in Driivz

 **Read more about Driivz on**
Page 29

Centrica Storage secures new £120m contract for Easington gas terminal

 **Read more about Centrica Storage on**
Page 35

November

Carers UK and Centrica announce new partnership

 **Read more about Delivering our Responsible Business Ambitions on**
Page 58

Centrica wins contract for solar power in Denmark

Centrica supports new electric vehicle charging study in London

 **Read more at**
centrica.com/charginglondon

2019

September

Spirit Energy invests in discovery West of Shetland

 **Read more about Drilling for the future on**
Page 34

October

Centrica completes two 50MW fast-response plants in Brigg and Peterborough

Direct Energy Business acquires Source Power & Gas LLC

 **Read more in the Business Review on**
Page 25

British Gas receives Carbon Trust certification

 **Read more about Delivering our Responsible Business Ambitions on**
Pages 60 to 61

December

Centrica launches support for renewable energy in Italy

Centrica completes one of the largest battery storage facilities in Europe, which has capability to hold power for 50,000 homes

 **Read more about Delivering our Responsible Business Ambitions on**
Page 60

Our Strategy

In 2015 our Strategic Review was founded on an analysis of market trends and sources of growth, and the capabilities and efficiency necessary to pursue them profitably.

To deliver for the changing needs of our customers

To deliver long-term shareholder value through returns and growth

To be a trusted corporate citizen

To be an employer of choice

To be a 21st century energy and services company



Strategic context

We identified three fundamental trends which are changing the energy landscape: decentralisation, shifting of power to the customer and digitisation.

Decentralisation

Globally, as a result of the need to tackle climate change, we require lower carbon and more efficient solutions. This is driving the energy system to become decentralised with technologies such as renewable generation, batteries, and demand response available and viable, close to the customer.

Power to the customer

As a result of increased choice and alternatives, the customer is becoming more powerful. Owning the relationship with customers and satisfying their needs is fundamental.

Digitisation

Technological developments, both physical and digital, are accelerating the pace of change. Capability in these areas is key to keeping up with customers and their changing needs.

These trends demand decentralised propositions, customer intimacy and service, agility and technology capability as the customer becomes increasingly powerful. That is why, at Centrica, our purpose is 'to provide energy and services to satisfy the changing needs of our customers', and this is at the heart of our strategy.

Our divisions

In 2017, we reorganised the Group around the customer, creating two new, customer-facing divisions: Centrica Consumer and Centrica Business, which address global customer needs that go beyond energy supply and target those areas where we have real competitive advantage. Alongside this, we refocused our Exploration & Production business.

Centrica Consumer

Market trends:

- Global demographic changes
- Adoption of technology
- Mobile first
- Self-service
- Traditional competitive boundaries blurring
- Growth of data and analytics

Customer needs:

- Value for money
- Solutions not just products
- Frictionless service
- Trusted brands
- Responsible use of data

 **Read more about Centrica Consumer on**
Pages 20 to 23 and 28 to 31

Centrica Business

Market trends:

- Volumes per customer reducing
- Margins under pressure
- Gas becoming global
- Mega-trends impacting energy sector
- Electricity system becoming more local

Customer needs:

- Reduced cost and increased productivity
- Supply security and resilience
- An expert partner to guide them through complexity
- A trusted and credible counterpart
- Not to be distracted from their main activity

 **Read more about Centrica Business on**
Pages 24 to 26, 28 to 29 and 32 to 33

Exploration & Production

Exploration & Production (E&P) is now more focused, providing diversity of cash flows and is a source of balance sheet strength. Following our divestment programme, the formation of Spirit Energy, and conversion of the Rough field to a producing asset, the E&P business is focused on Europe.

 **Read more about Exploration & Production on**
Page 27 and pages 28 to 29 and 34 to 35

Strategic approach

To deliver the strategy we announced in July 2015, we set ourselves a number of medium-term objectives to 2020 and focus areas of long-term growth.

Our strategic objectives

- Customer-led growth
- Smaller and more focused E&P business
- £1.5 billion resource reallocation from E&P and Central Power Generation to customer-facing businesses 2015/20
- £1.25 billion p.a. efficiency programme delivery by the end of 2019 and a further £500 million p.a. beyond 2019
- Strong financial discipline within a clear framework
- Adjusted operating cash flow growth of 3-5% p.a.

Our focus areas for long-term growth

- Energy Supply
- Services
- Connected Home
- Distributed Energy & Power
- Energy Marketing & Trading

Section 172 Directors' Duties

The Directors continue to have regard to the interests of the Company's employees and other stakeholders, including the impact of its activities on the community, environment and the Company's reputation, when making decisions. The Directors, acting fairly between members, and acting in good faith, consider what is most likely to promote the success of the Company for its members in the long term.

 **Read more about our Stakeholder Engagement on**
Pages 52 to 55

 **Read more about Delivering our Responsible Business Ambitions on**
Pages 56 to 65

 **Read more about how we manage Risks on**
Pages 41 to 51

 **Read more about our Governance on**
Pages 66 to 82

Our Business Model

Our business model is designed to deliver returns and growth through a shift of resources toward our customer-facing businesses.

Our Energy Supply, Services, Connected Home, Distributed Energy & Power and Energy Marketing & Trading businesses are organised into two global customer-facing divisions; Centrica Consumer is designed to support the needs of residential consumers and Centrica Business is designed to support the needs of the business customer. Each division has a strategic framework built around five pillars and these are set out in the diagram below.

Our Central Power Generation business is included within the Centrica Business division, given its role in the management and optimisation of central power generation and its interface with wholesale markets.

Our customer-facing businesses are supported by the common operating functions of Customer Operations and Field Operations. These functions are where we interact with the customer and are fundamental to our success.

Our exploration and production businesses, Spirit Energy and Centrica Storage, are focused on Europe.

To ensure our model remains efficient and scalable, all businesses are supported by a number of centre-led Group Functions that are responsible for setting boundaries and standards which allow us to effectively manage risk and ensure a strong system of internal control.

Our strategic frameworks

Centrica Consumer

1. Energy supply

- Gas supply
- Electricity supply

2. In-home servicing

- Cover products (protection plans, warranties)
- On demand repair and maintenance
- Installation (heating and air con)

3. Peace of mind

- Home insurance
- Home security and monitoring
- Remote diagnostics

4. Home energy management

- Energy insight
- Energy efficiency
- Energy optimisation
- Energy solutions

5. Home automation

- Home control
- Appliance control



Centrica Business

1. Energy supply

- Gas supply
- Electricity supply

2. Wholesale energy

- Trading partner
- Energy commodities and risk products
- Central power generation

3. Energy insight

- Energy resource management and monitoring
- Operational insights from energy data
- Preventative maintenance

4. Energy optimisation

- Asset optimisation
- Aggregation and optimisation of distributed energy resources
- Access to energy, capacity and flexible markets

5. Energy solutions

- Multi-technology solutions
- Design, install, maintain and service
- Business services



Exploration & Production

1. Sustainable energy production

2. Cash flow diversity

3. Balance sheet strength



Our Group Priorities

We are focused on five key priorities to deliver our strategy and we align performance and risk management processes around these, including our Key Performance Indicators.

 **Read more about Our Strategy on**
Pages 14 to 15



Safety, compliance and conduct



Cost efficiency and simplification



Customer satisfaction and operational excellence



People and building capability



Cash flow growth and strategic momentum

Our Responsible Business Ambitions

We are determined to use our capabilities to make a positive impact. That is why in 2019, we are launching our 2030 Responsible Business Ambitions – a set of 15 goals that contribute to a more sustainable world. Our Ambitions are underpinned by our Responsible Business Foundations that ensure we operate with integrity.

 **Read more about Delivering our Responsible Business Ambitions on**
Pages 56 to 65

We will focus on:

Delivering for our customers

Enabling all our customers to use energy more sustainably

Building the workforce of the future

Creating stronger communities

Our financial goals

Our financial goals are delivered through a clear financial framework that enables us to deliver long-term shareholder value through returns and growth.

The risks to achieving the Group's strategy are monitored and reported regularly. For more information on managing our exposure to risk see Our Principal Risks and Uncertainties on pages 41 to 51.

Our priorities also ensure that progress in delivering performance in Safety, Customer Satisfaction, Operational Excellence and People is a core part of the overall Group performance, which is then measured through individual employee scorecards.

Targets	Metric
Adjusted operating cash flow	• 3-5% underlying growth p.a. on average
Dividend	• Progressive in line with adjusted operating cash flow
Controllable costs ⁽¹⁾	• Operating cost growth < inflation
Capital re-investment	• Investment <70% of adjusted operating cash flow • Limited to £1.2 billion p.a. in 2018-20
Credit rating	• Strong investment grade (Baa1/BBB+ or above)
ROACE	• At least 10-12%

(1) Further information on controllable costs can be found in Additional Information – Explanatory Notes available at centrica.com/ar18

Key Performance Indicators

Our Key Performance Indicators (KPIs) help the Board and executive management assess performance against our Group Priorities.

Our Group Priorities



Safety, compliance and conduct



Customer satisfaction and operational excellence



Cash flow growth and strategic momentum



Cost efficiency and simplification



People and building capability



Read more about Our Strategy
Pages 14 to 15



Read more about Remuneration
Pages 78 to 82



Read more about adjusted performance measures at centrica.com/datacentre

Adjusted operating cash flow

Adjusted operating cash flow is our key measure of financial performance and is one of the financial metric for the short-term incentive plan for our Executive Directors.

Adjusted operating cash flow was up 9% reflecting higher operating profit offset by working capital movements in the Energy, Marketing & Trading business.

Link to Remuneration:

Short and long-term incentive

Link to Group Priorities:



Adjusted operating profit

Adjusted operating profit is one of our fundamental financial measures.

Adjusted operating profit was up 12% reflecting increased profit in our Exploration & Production segment.

Link to Remuneration:

Short-term incentive⁽²⁾

Link to Group Priorities:



Adjusted basic earnings per share (EPS)

EPS is a standard measure of corporate profitability. EPS is adjusted to better reflect the underlying performance of the business.

Adjusted basic EPS was down 10%, reflecting the higher effective tax rate as a result of a greater proportion of the higher profit being in the Exploration & Production segment.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



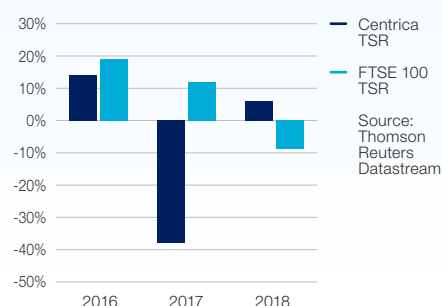
Total shareholder return (TSR) by year

The Board believes that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



- (1) restated for the adoption of IFRS15: revenue from contracts with customers.
- (2) Adjusted operating profit is further adjusted to a post-tax basis and a charge on capital is then applied to set the economic profit performance targets: see performance conditions relating to the long-term incentive plans vesting in 2018 at centrica.com/ar18

Total recordable injury frequency rate (TRIFR)

Safety is a top priority. Our TRIFR increased 4% per 200,000 hours worked, so we remain committed to securing an environment where an incident-free workplace is possible.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



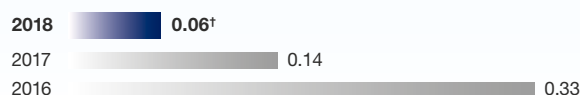
Process safety incident frequency rate (Tier 1 and 2)

Our focus on process safety helps prevent major incidents where we source, generate and store energy. This has led to a 57% improvement per 200,000 hours worked.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



Brand Net Promoter Score (NPS)⁽¹⁾⁽²⁾

Everything we do is focused on satisfying the changing needs of our customers. Following improvements in customer service, our aggregated NPS score increased 0.6 points.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



Complaints⁽²⁾⁽³⁾

We strive to deliver an excellent service which is key to satisfying customers and reducing complaints. Our aggregated complaints per 100,000 customers reduced 8%.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



Employee engagement⁽⁴⁾

To ensure we have an engaged workforce, we seek feedback on what we are doing well and where we can improve. As a result, employee engagement increased 3%.

Link to Remuneration:

Long-term incentive

Link to Group Priorities:



The KPI performance outcome associated with Executive Director remuneration can be found at centrica.com/ar18

- (1) Aggregated scores across UK Home, North America Home, Ireland, Connected Home, UK Business and North America Business weighted by customer numbers.
- (2) Aggregated performance was not calculated in 2016.
- (3) Aggregated scores across UK Home, North America Home, Ireland, UK Business and North America Business weighted by customer accounts.
- (4) Due to changes in methodology, 2016 comparisons are not available.

Assurance

We engaged PricewaterhouseCoopers (PwC) to undertake a limited assurance engagement over 19 metrics highlighted with the symbol '†' throughout the Annual Review 2018.



Read more about our responsible business performance on
Pages 56 to 65



Further details are available online at
centrica.com/assurance

Business Review

UK Home

Our UK Home business experienced continued high levels of competitive intensity and regulatory change during 2018, in addition to periods of volatile weather conditions and commodity prices.

Reflecting these factors, UK Home adjusted operating profit was down 18%.

Energy account holdings reduced by 742,000 in 2018, largely reflecting the highly competitive nature of the residential supply market. The industry experienced record levels of switching in the year, with many customers moving to smaller suppliers, although we have seen some market consolidation following a number of smaller supplier failures in 2018. Despite the competitive pressures, the underlying rate of losses slowed compared to 2017, with 634,000 fewer net losses despite two increases in the Standard Variable Tariff (SVT) compared to one in 2017. We withdrew the SVT for new customers at the end of March, in line with the commitment we made in November 2017, and we ended the year with 2.2 million fewer SVT accounts. For those customers who switched tariffs, 440,000 accounts were moved onto the new safeguard tariff for vulnerable customers, with the remainder choosing to move onto alternative fixed-term offers. The number of fixed-term accounts remained broadly flat over the year while we also had 1.0 million accounts on our newly introduced Temporary Tariff.

Against the competitive backdrop, we continue to expand our range of offers and bundles in response to customer demand. In 2018 we launched and delivered new Online-Only, Tracker, Green, Electric Vehicle and Unlimited Usage energy tariffs, and expanded our range of energy tariffs bundled with services and connected home offers. Our British Gas Rewards programme now has 2 million customers signed up, with enrolled customer churn around half that of comparable non-Rewards customers. We are also using increasingly sophisticated customer propensity and customer value modelling to drive retention and growth within higher value segments.

Services accounts increased by 43,000 in 2018, the first full year of account growth since 2010, reflecting additional sales from bundled propositions attracting 'new to services' customers and growth from commercial partnerships. In addition, installs and on demand jobs increased by 15% relative to 2017, reflecting an increase in the number of boiler installations despite a flat market and the adverse impact on sales of warmer weather in H2 2018 compared to H2 2017. We've also seen further progress in the development of our on-demand platform, Local Heroes, which completed three times as many jobs in 2018 when compared to 2017.

Delivering high levels of customer service remains a core priority and energy supply complaints fell by 1% in 2018, remaining at low levels relative to the industry. This reflects enhancements to the customer experience, through the redevelopment of key customers journeys through digital transformation, the continued simplification of bills and the roll-out of our next generation mobile app. In services, we experienced an exceptionally high number of central heating boiler breakdowns due to cold weather in Q1, with peak breakdowns more than twice the normal weekly rate. This contributed to an increase in complaints of 52% in H1 2018, as appointments were rescheduled to clear the backlog. However, complaints returned closer to historic levels in H2 2018, resulting in a 30% increase for the whole year. Brand NPS was flat compared to 2017 as the progress made on improving service levels was offset by the impact of cold weather on services and negative sentiment towards energy suppliers.



We remain focused on delivering cost efficiencies to maintain a competitive pricing position. In 2018 we introduced Natural Language Call Steering which identifies key words to route customers to the most appropriate call agent. This is already having a positive impact on the customer experience and resulting in shorter calls and lower costs. In our field force we have invested in programmes to improve productivity, availability and first-time fix rates, and we have rolled out online self-help content to help our customers resolve minor issues remotely. We continue to invest in digital transformation, with improved functionality and performance on both our new customer app and our website, allowing customers to complete a wider range of transactions in a fast, convenient and secure way. The number of customers with an active online account grew 13% year on year and around 50% of all transactions were made through digital channels. Annualised cost per Home customer increased by 10%, driven by a greater mix of services customers, the additional costs in services due to the weather and the impact of lower energy account holdings, partly offset by efficiencies.

Overall UK Home adjusted operating profit was down 18%, with energy supply down 19% due to lower customer accounts holdings, the full year impact of the prepayment cap and higher imbalance costs reflecting a new industry settlement methodology. This outweighed progress made in delivering cost efficiencies. Services adjusted operating profit was 18% lower than 2017, with additional costs of around £20 million resulting from a record number of call outs associated with the cold weather in Q1, the impact of customer mix and investment in growth offset by cost efficiencies which accelerated in H2 and a higher number of boiler installations. UK Home adjusted operating cash flow reduced by 13% in 2018, broadly in line with the reduction in adjusted operating profit.



Ireland

Bord Gáis Energy performed well again in 2018, delivering an increase in customer account holdings and further improvements in customer service.

However, adjusted operating profit was impacted by an extended planned major maintenance outage at Whitegate in H1 2018, the first major overhaul since it was commissioned in 2010. The plant came back online in May and operated at improved efficiency levels over H2 2018 compared to 2017.

Customer account holdings increased by 12,000 with growth in both consumer and business accounts. This was reflective of our range of offers, brand positioning and continued improvement in customer service. We also continued to develop our range of innovative propositions, including an enhanced energy and services bundled offer, while our rewards programme remains key to attracting and retaining high value customer segments, with 44% of our domestic customers now signed up.

Improvements to customer service in 2018 were supported by enhancements to our customer-facing IT platforms, a focus on improving the quality of contact centre interactions and increased speed of response. These actions led to a 33% decline in complaints and a 16pt improvement in Brand NPS compared to 2017. These improvements came despite a spike in cold weather-related call volumes in Q1 2018 and regulatory changes requiring us to contact customers on the same tariff for more than three years to encourage them to check their tariff suitability. We also made additional progress in delivering cost efficiencies, with further improvements to our digital platform and a higher proportion of sales through our online channels.

Adjusted operating profit was down 6% year-on-year to £44 million and down 7% to €50 million in local currency, primarily due to the impact of the Whitegate outage, with the impact of higher costs resulting from rising commodity prices being broadly offset by the impact of our standard tariff price increase in August. Adjusted operating cash flow was up £12 million to £74 million, including the impact of a working capital prepayment in 2017 related to Whitegate.

North America Home

North America Home performed well in 2018, with a relative stabilisation in account holdings and continued good levels of customer satisfaction.

Adjusted operating profit grew for the third consecutive year despite more normal weather conditions for the energy supply business when compared to favourable conditions in 2017, largely reflecting the closure of the loss making residential solar business in H2 2017, adjusted gross margin growth in services and the delivery of further cost efficiencies.

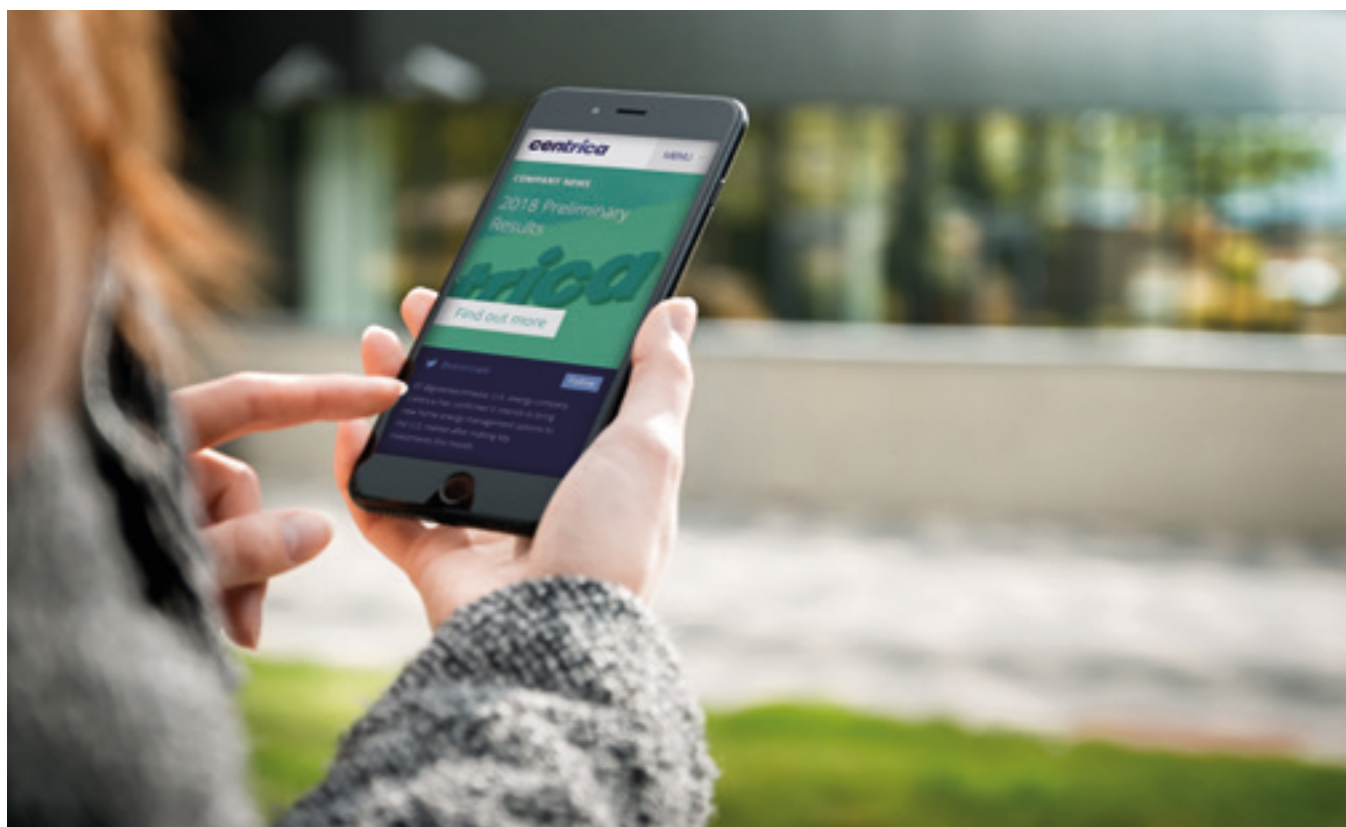
Energy account holdings reduced by 1% or 25,000 in 2018, compared to an 11% decline in 2017, with lower churn rates across all regions and a migration of customers from variable to fixed tariffs. Accounts in Texas fell by 4%, however our use of data analytics has allowed us to focus our acquisition and retention on customer segments with the highest estimated lifetime values. As a result, we delivered a significant increase in sales to higher value customers at a lower cost to acquire, and improved retention of more valuable customers on fixed price contracts. While regulatory scrutiny and competitive pressures in certain US North East markets remain a challenge, we won some profitable community aggregations and auctions, while account losses in Canada slowed as we rebuilt sales channels following our exit from door-to-door sales activity in 2017.

Services accounts increased by 3% or 23,000 in 2018, with further growth in Direct Energy paid protection plans. Services adjusted gross margin also improved as a result of more sophisticated customer segmentation-led pricing strategies and growth in our

Airtron new residential construction business. We expanded our residential new construction offering with the acquisition in December of T.A. Kaiser Heating & Air, Inc., a multi-city HVAC installation, repair and maintenance company based in Indiana. We continue to focus on the development and offer of bundled propositions and in addition to energy and services bundles, we launched offers combining energy with Hive products and solutions and the Amazon Echo Dot smart device. We also expanded our energy only propositions to include a 'time of use' tariff.

We continue to make good progress on cost efficiency including through call centre consolidation, while we are also progressing a new services billing platform which is intended to enable further cost savings. Reflecting the delivery of efficiencies, and the mix impact of the closure of the residential solar business, annualised cost per North America Home account decreased by 4% compared to 2017. We also saw continued low levels of customer complaints and Brand NPS remained at a high level.

Adjusted operating profit was up 8% to £123 million compared to 2017, or up 11% to \$165 million in local currency. This was largely due to reduced losses in the services business reflecting the closure of the loss-making residential solar business, growth in services and cost efficiencies. Energy adjusted operating profit was down 8%, or down 4% in local currency, with the impact of efficiencies largely offsetting the impact of lower customer accounts, a changed customer mix with more fixed price contracts and the impact of less favourable weather conditions. Adjusted operating cash flow increased by 21% to £187 million, or by 25% to \$249 million in local currency, due to the increase in adjusted operating profit, the timing of tax cash flows and the lowering of the US rate of corporation tax.





Connected home

Connected Home delivered further growth in customers, product sales and revenue in 2018, building on its leading position in the UK while expanding its range of products, propositions and partnerships across core geographies.

The cumulative number of Hive customers increased by 49%, with 444,000 new customers joining Hive during 2018, while product sales of 1,194,000 were 37% higher than in 2017. This growth reflects the wider range of products available on the Hive ecosystem and existing customers taking more products due to increased familiarity with the Hive platform and App. The average number of Hive products per customer increased from 2.3 to 2.7 over the year and the average revenue per new customer increased by 34%.

During 2018, we launched a number of new products including the Hive View indoor and outdoor cameras, Hive Hub 360, GU10 and E14 lighting ranges and the integration of Philips Hue products. Customers also now have greater choice in how they control their home, with more Hive devices and features enabled for voice activation through Amazon Alexa, Google Home and IFTTT. In North America, the thermostat and lighting range also achieved Energy Star compliance, a government-backed initiative for energy efficient products. We have introduced several new propositions, including 'Cloud Storage' in the UK and North America, while in December we launched our connected care service 'Hive Link' in partnership with Carers UK, which helps provide peace of mind to people caring for friends or relatives. The launch of these propositions helped more than double the number of active subscriptions over the year, with 14% of Hive customers now on a subscription service compared to 10% in 2017.

Connected Home is also having a positive impact on the rest of the Consumer business units. The NPS of UK Home energy customers who have a Hive product is 13 points higher than those without, and we are also seeing improved retention rates for UK Home and North America Home services customers with Hive. 'Boiler IQ', a remote boiler monitoring product developed by Hive, is also improving first time fix rates for UK services customers.

Expanding our range of sales channels remains important, and during the year we launched several new partnerships. In April, we commenced our partnership with Italian energy company Eni Gas e luce. In May, we announced a partnership with EE in the UK, providing customers with the option to bundle Hive products with their mobile subscription. We also announced a partnership with Wave, a joint venture between Anglian Water and NWG Business, to provide our 'Leak Plan' as an offering to their customers. We continued to expand our retail channels, with our Hive products now available for sale on Amazon in United States, Canada, Italy and France, in addition to the UK.

We continue to focus on improving the customer experience and NPS remained high. During the year we upgraded the Hive App which now includes 'App Chat' customer services capability and enhanced 'Actions', giving customers greater local control and enabling personalisation of how their devices interact with each other. We also developed our technical infrastructure, enabling a more efficient and scalable platform with faster response times.

Gross revenue increased by 60% to £67 million, reflecting increased sales of our increasingly diverse product range to new and existing customers. Adjusted gross margin increased by 63% to £13 million, with the average adjusted gross margin percentage remaining at 19%, while the adjusted operating loss of £85 million was 11% lower than 2017 which also includes the impact of lower adjusted operating costs. Adjusted operating cash outflow was £74 million lower than in 2017, primarily due to a material purchase of inventory in 2017 in preparation for launch into new geographies.

UK Business

UK Business performed well in 2018, delivering improved operational performance, significantly lower level of complaints, and customer account growth in the higher value SME customer segment.

Adjusted operating profit increased, with higher adjusted gross margin and lower adjusted operating cost, as periods of cold weather in Q1 2018 were managed well and we experienced no repeat of the Q1 2017 additional costs resulting from commodity volatility and energy volume settlements.

Despite a competitive backdrop, with around 95 active competitors at the end of 2018 compared to around 70 at the start of 2017, SME customer accounts increased by 6,000, or 1%, during the year. This reflects enhancements to our customer offers through both direct and broker channels, including our online-only British Gas Lite tariff which has been designed around the needs of the smaller SME customers. Our retention and acquisition focus remains on the higher value SME segments and we have also seen further development of our services offers. The number of boiler installations for small businesses increased and we also delivered growth in bundled energy and services offers to customers.

I&C customer account holdings reduced by 10,000, or 9%, as we actively chose not to pursue the renewal of some low value multi-site customers, with our acquisition and retention efforts focused on higher volume customers who have a greater propensity to take our Distributed Energy & Power (DE&P) offers. During the year we signed an increasing number of contracts combining energy supply with our DE&P services, including CHP solutions and demand side response capabilities.

Operational performance has continued to improve resulting in better customer outcomes, with further improvements in billing accuracy and timeliness. The volume of calls fell by 105,000, or 11%, while customer complaints fell by 72% compared to 2017. In addition, the focus on improving our digital platform has resulted in online self-service levels increasing to 51% from 44% in 2017. These enhancements are also enabling us to deliver cost efficiencies as we continue to work to deliver a simpler and more efficient service for customers.

Adjusted operating profit was £40 million, compared to £4 million in 2017, primarily reflecting the absence of the 2017 additional costs from commodity volatility and further cost efficiencies. Adjusted operating cash flow decreased by 53% to £62 million, with UK Business having delivered material debt collection in 2017 associated with historic billing issues.

North America Business

North America Business faced continued challenging trading conditions in 2018, with continued high levels of competitive intensity and the expected squeeze on retail power margins resulting from the timing effect of power capacity charges in the US North East, which were higher in 2018 but are expected to be lower in subsequent years.

The business also experienced unfavourable weather conditions, which impacted power gross margin.

As a result, although power adjusted gross margin increased by 10% in local currency to \$209 million, when excluding the impact of an \$82 million one-off non-cash charge in 2017 relating to the historic recognition of unbilled power revenues, underlying power adjusted gross margin fell by 23%. We currently expect power adjusted gross margin to improve in 2019, in part reflecting the lower power capacity charges in future periods, and total net margin under contract for 2019 at the end of 2018 was higher than the net margin under contract for 2018 at the end of 2017. Total gas adjusted gross margin was down 3% to \$334 million in local currency compared to 2017, with strong gas optimisation performance during a particularly cold January in the US North East offset by the impact of unfavourable weather conditions and two pipeline outages which limited optimisation opportunities in the second half of the year.

We remain focused on driving improvements in profit and returns and continuing to deliver high levels of customer satisfaction in North America Business and during the year implemented changes in our sales channel mix and products. Total customer account holdings were down 65,000 during 2018, reflecting our exit from the higher-cost door-to-door and third-party telesales sales channels. These are being replaced by lower-cost digital channels and during the year we also enhanced the web enrolment experience and our customer targeting model. In addition, our recently launched rewards programme, which is targeted at higher value SME customers, is helping enhance customer retention and customer lifetime value.

During 2018, we launched our Fixed Energy Plus offer, which is targeted at high consuming businesses. It gives customers access to real time usage through our PowerRadar application and alerts them when system load is peaking, allowing them to lower capacity charges in their energy bills by proactively reducing consumption. Since its launch we have continued to improve the offer to fit the needs of our customers, acting on feedback from brokers and customers. We also expanded our Energy Portfolio platform which gives customers direct access to our energy expertise while providing dynamic energy procurement options. North America Business continues to work closely with the Distributed Energy & Power business and is an important sales channel for distributed energy products.

We continue to focus on building our strong gas position in the US North East, in addition to expanding our offer into new geographies to diversify risk across the portfolio, and during the year we completed three small bolt-on acquisitions. In February, we acquired New Jersey Resources' retail natural gas business, which supplies around 45bcf of gas per year to customers in the US North East and Mid-Atlantic. In July, we acquired a portion of BP's US retail marketing operation, which supplies around 100bcf of gas per year to customers in Indiana, Kentucky, Tennessee and Ohio. In December, we completed the acquisition of Source Power & Gas, a retail energy provider serving 4,000 customers with an approximate annual load of 6.5TWh in Texas, Illinois, Ohio, New Jersey, Delaware, Maryland, Pennsylvania and the District of Columbia. Including the impact of these acquisitions, total gas consumption was up 19% compared to 2017, with power consumption flat.

North America Business adjusted operating profit increased by 14% to £81 million, or by 25% to \$109 million in local currency. Excluding the impact of the 2017 one-off non-cash charge, adjusted operating profit fell by 39%, reflecting the unfavourable weather conditions and the squeeze on retail power margins. Adjusted operating cash flow was up 220% to £278 million, reflecting positive working capital movements, as we achieved structurally improved payment terms on our energy procurement contracts, and warmer than normal weather at the end of the year.



Distributed Energy & Power

We made significant progress in Distributed Energy & Power (DE&P) in 2018, utilising the enhanced capabilities that we have developed both organically and through acquisition over the past three years.

Our leading indicators of growth demonstrated significant momentum. Order intake was up 158% compared to 2017 and the secured order book increased by 51% to £559 million. Gross revenue was up 14%, below the level of secured order book growth reflecting the phasing of order book conversion, while the adjusted gross margin percentage increased to 24%.

Our investment in branding and developing our sales channels has contributed to strong growth in our international operations. All DE&P products are now under the Centrica Business Solutions brand, with a new digital marketing platform in place across all our geographies and we continue to utilise the customer relationships of our UK and North America Business divisions. We are running global marketing campaigns to target specific customer needs, and agreed sales partnerships with several global organisations, including WSP. Our North America and Rest of World businesses accounted for 68% of the secured order book at the end of 2018 compared to 50% at the end of 2017. In the UK, the secured order book remained broadly unchanged despite experiencing some impact on customer orders in Q4 2018 due to uncertainty surrounding the UK Capacity Market.

Our range of technology solutions offered to customers now includes solar, power generation, CHP, fuel cells and battery storage, in addition to optimisation and energy insight services. Increasingly we are selling multi-technology solutions coupled with optimisation, insight, financing and O&M services and we have a unique capability to develop multi-technology solutions at scale. In 2018, we launched our Integrated Solutions Platform (ISP) under the name Power Radar. This digital portal gives customers access to our products and solutions in one place and enables the combination of different technologies to develop new and differentiated products. We have moved over 4,000 customer sites onto the ISP.

In H2 2018 we completed the construction of two 49MW fast response gas-fired plants at Brigg and Peterborough and a 49MW battery storage facility at Roosecote, with all three assets performing well in early operation. The CCGT replant at Kings Lynn is also progressing to plan and is expected to be operational in H1 2019.

Continued revenue investment to drive long term value resulted in an increased adjusted operating loss of £81 million, despite the increase in adjusted gross margin. Having now scaled our cost base to deliver growth, we expect 2018 to be the year of peak losses as we target a further adjusted gross margin increase in 2019. We also recognised an exceptional cost of £18 million relating to the King's Lynn and Peterborough power stations following the suspension of the UK Capacity Market in November and reductions in clean spark spread price forecasts. Adjusted operating cash outflow was £31 million higher than in 2017, broadly in line with the increase in the adjusted operating loss.

Energy Marketing & Trading

The performance of our core Energy Marketing & Trading (EM&T) activities was strong in 2018, as we utilised our enhanced capabilities and asset positions to deliver a strong trading performance across North West Europe, particularly during periods of high market volatility associated with the exceptionally cold weather in Q1.

However, financial performance was impacted by our legacy gas contracts which generated losses, reflecting commodity price movements over recent years.

We continue to expand our route-to-market offering across Europe and now serve customers who own decentralised assets with contracted capacity of 13.8GW across a range of clean energy sources. In August we signed a 10-year agreement to provide balancing and power trading for the new 235MW Överturingen wind farm in Sweden. In November we signed a two-year contract for the balancing and trading of 469MW of renewables capacity from 87,000 homes and business sites across Denmark. In December, we announced an expansion of our route-to-market offerings into Italy by agreeing power purchase agreements (PPAs) with Glennmont Partners for the trading and balancing of 315MW of onshore wind farm capacity. In February 2019, we entered into a 15-year contract to trade and balance 76.7% of the electricity generated from the 950MW Moray offshore windfarm from the start of commercial operation which is scheduled for 2022. In addition, in June we announced a small direct investment in Barrow Green Gas, the UK's largest biomethane supplier and the only gas business in Great Britain focused solely on the green gas market, shipping almost half of the green gas used by British homes and businesses.

We continue to expand our global LNG presence in advance of the first gas delivery from our contract with Cheniere, which is expected in September 2019 from the Sabine Pass facility in Louisiana, with a second seven-year charter signed with GasLog Ltd in May for another 180,000 cubic meter LNG carrier. We are utilising our full range of trading, optimisation and operations capability and continue to transact multiple cargoes from a range of locations across the globe. In February 2019, alongside Tokyo Gas we jointly signed a sales and purchase agreement to purchase 2.6 million tonnes per annum, delivered ex-ship from the Mozambique LNG project from the start-up of production until the early 2040s. This follows the non-binding Heads of Agreement signed in June 2018 and is the first long-term offtake agreement from Africa for Centrica, in line with our strategy to diversify our sources of LNG.

EM&T's major flexible legacy gas contracts and associated hedges with 'take or pay' arrangements generated a loss of £53 million in 2018 compared to profit of £36 million in 2017. This primarily reflects the cessation of our two historically most profitable contracts in 2018, leaving one which expires in 2025 that is expected to be loss-making based on the current level of gas prices. The contract will continue to be managed as part of the EM&T portfolio as we look to utilise the contract optionality to capture favourable market conditions as and when they arise.

Full year adjusted operating profit in 2018 was £54 million, compared to £104 million in 2017. After excluding the impact of the flexible gas contracts, adjusted operating profit from our core EM&T activities rose 57% compared with 2017. This reflects the strong trading and optimisation performance during the cold weather in Q1. Adjusted operating cash outflow for the year was £66 million compared to an inflow of £262 million in 2017, reflecting the timing of cash flows associated with both the flexible gas contracts and core EM&T trading activities.

Central Power Generation

Having completed our exit from wind power generation in February 2017 and disposed of our large CCGTs at Humber and Langage in August 2017, the Central Power Generation segment now consists only of our 20% equity interest in the entity which owns and operates the eight nuclear power stations in the UK and the financial result of the tolling arrangement for the Spalding power station.

Nuclear generation volumes were 7% lower than in 2017, largely reflecting extended inspections and outages at the Hunterston B and Dungeness B plants. Both reactors at Dungeness and both reactors at Hunterston are currently expected to return to service during March and April.

Central Power Generation adjusted operating profit fell 23% to £27 million. This was driven by the lower Nuclear generation volumes, partially offset by a higher achieved power price and the impact of the disposal of the loss-making large CCGTs. We also recognised an exceptional cost of £44 million relating to an onerous contract provision on the Spalding tolling arrangement following the suspension of the UK Capacity Market in November and reductions in clean spark spread price forecasts. Adjusted operating cash flow reduced by 14% to £50 million due to lower Nuclear dividends, broadly in line with the reduction in adjusted operating profit.



Exploration & Production

Following the 2017 disposal of our assets in Canada and Trinidad and Tobago, our Exploration and Production division is wholly focused on North West Europe.

The division now consists of Spirit Energy, an entity formed in December 2017 which combined Centrica's E&P business with that of Bayerngas Norge, and CSL, which was granted consent by the Oil and Gas Authority (OGA) to produce indigenous gas and associated liquids from its Rough asset in January 2018. Reflecting both the consolidation of Spirit Energy and significant production from Rough, E&P delivered increased European volumes in 2018 despite lower than expected production from Spirit Energy. In addition, a higher wholesale commodity price environment resulted in increased achieved gas and liquids prices. As a result, both adjusted operating profit and adjusted operating cash flow were significantly higher when compared to 2017.

Total European gas and liquids production of 57.9mmboe was up 20% compared to 2017. Production of 11.2mmboe from Rough was at the top end of our expectations at the start of the year, reflecting good levels of asset availability over the period and the successful transition to medium-pressure operations in the fourth quarter from the initial free flow phase. However, Spirit Energy production of 46.7mmboe was lower than expected at the start of the year, reflecting a higher level of unplanned outages at Morecambe and operational issues across a number of other operated and non-operated fields.

Spirit Energy continues to focus investment on the most attractive developments in its portfolio. The operated Oda field, with an estimated 13mmboe of Spirit Energy 2P reserves, is progressing ahead of plan with first oil expected in Q1 2019. In May, a positive final investment decision was taken on the Nova oil field development, in which Spirit Energy has a 20% interest. Spirit Energy's share of the development cost is expected to be approximately NOK2,000m (£180 million), with the project expected to start up in 2021. In CSL, we were awarded a contract in August to process gas from the Tolmount field at the Easington terminal. This contract will extend the life of the terminal until at least 2030.

However, total Centrica share of 2P reserves declined from 275mmboe to 203mmboe in 2018, despite Nova adding 11mmboe reserves net to Centrica, reflecting production during the year and reserves downgrades at Maria due to reservoir performance and the downgrade of Hejre from 2P to 2C as the operator re-evaluates development options.

Although reserve replacement has been disappointing, overall resources for Spirit Energy have materially increased. In August, it was announced that Spirit Energy had farmed into 50% of Hurricane Energy's Greater Warwick Area, West of Shetland. Spirit Energy will fund a \$180 million campaign to drill three wells and prepare for an extended well test, with a rig secured to commence drilling in Q2 2019. The wells will target the Lincoln discovery and the Warwick exploration prospect, which are estimated to hold 604mmboe gross 2C contingent resources and 935mmboe gross prospective resources respectively. Spirit Energy also experienced exploration success at the Hades/Iris and Lille Prinsen prospects with appraisal wells planned for 2019.

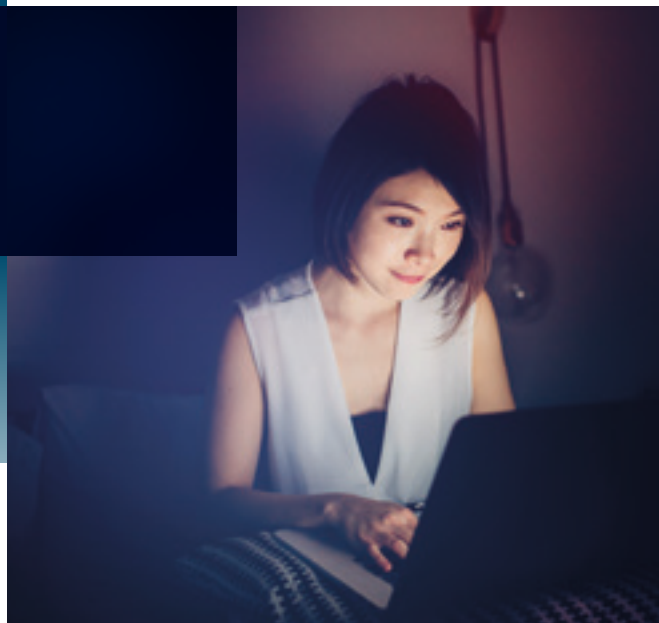
European lifting and other cash production costs were £14.3/boe, down 7% compared to 2017, driven primarily by the impact of a greater proportion of lower cost Rough production. Adjusted operating profit of £521 million was up materially compared to 2017, with the impact of higher volumes and achieved prices more than offsetting the impact of the disposal of the Americas assets in 2017. We also recognised a £90 million net impairment write-back of assets relating to certain UK and Norwegian fields reflecting an increase in near-term liquids prices partially offset by a reduction in long-term price forecasts, a movement in reserve estimates on one of the fields and a reduction in decommissioning provisions.

Adjusted operating cash flow was up 89% to £963 million, reflecting the higher operating profit and the favourable timing of tax payments. When combined with net investment of £480 million, E&P generated free cash flow of £483 million in 2018.



Demonstrating the next phase of our customer-focused strategy

We are transforming our offerings and services through technology and innovation to deliver for the changing needs of our customers and long-term shareholder value.



At Centrica, we are now in the second phase of our transition into a customer-facing, international energy and services company. This is what we set out to be when we unveiled our strategy in 2015 and we are beginning to demonstrate that transition. Our propositions and services are becoming more digitised, more decentralised and are focused on satisfying the changing needs of our customers as we help them to reduce their carbon footprint.

In the following pages, you can explore some of the case studies which demonstrate our transition and show where we have tried to make our purpose a reality in 2018. They provide key snapshots of the work we do across our three business divisions – Centrica Consumer, Centrica Business and Exploration & Production.

As we continue to refocus our business towards the customer, we're acutely conscious that advances in technology are creating new possibilities, almost by the day. So, we're undertaking a digital transformation of our business to make sure that we use technology effectively, both for the benefit of our customers and to make ourselves as efficient as possible.

Our aims in doing this are to improve customer service through innovation (there's a great example of this in our Home Warranty of America case study); to provide greater peace of mind for our customers, such as our Hive family of connected home products; to increase our operational efficiency; to improve our digital fluency – including digital skills training for every employee; to use data more effectively in creating real-time insights; and to put in place a common, robust technology foundation across the Group.

“There is clear evidence that we are starting to build momentum in our customer-facing businesses by providing the type of products and services that our customers value.”

Iain Conn
Group Chief Executive

Advances in technology are putting more choice and control in the hands of our customers. That means our relationship with them is changing. Our role now is to be more of an enabler (as with our customer Sappi, a leading international paper maker) and a partner (our work with Poole Hospital NHS Foundation Trust shows partnership in action).

Our changing role and digital transformation mean that it is essential for us to invest in the energy solutions of tomorrow and help our customers to reduce the amount of carbon they generate through new propositions and the application of advanced technology. The work of Centrica Innovations, our start-up investment arm, in developing an electric vehicle charging system – showcased opposite – is one example of how we are doing this.

We work in a very challenging market. But this is also a very exciting time of change for the energy sector. Our people are inspired and motivated by the new possibilities for serving our customers better. Our colleagues' care and commitment for our customers is demonstrated by how they went the extra mile during the 'Beast from the East'.

Investing in tomorrow's energy solutions for our customers

As technology plays an increasingly important role in meeting the needs of our customers, Centrica Innovations is incubating the new ideas which will become a part of their everyday lives. Centrica Innovations is backing an electric vehicle charging system which is already being used by 200,000 drivers around the world.

Electric vehicles (EV) are the future of road transport and are expected to account for one fifth of all new car sales by 2030. So, it's vital to create the networks and power infrastructure for drivers to recharge their vehicles conveniently – as important as petrol stations are for the cars and vans of today.

We see this as a potentially profitable area, and that's one of the reasons why Centrica Innovations (CI), our investment arm which specialises in incubating start-ups and innovative solutions, has invested in Driivz, a business which has developed world-class software for managing EV charging systems.

By combining Centrica's ability to install and manage charging networks with the state-of-the-art Driivz software, we can now provide our customers with one of the most effective, end-to-end vehicle charging solutions on the market. We plan to make it even stronger by integrating some of our existing capabilities in system monitoring and power load management with the Driivz system.

“The electric vehicle market is accelerating and Driivz gives us a powerful software tool to manage, operate and maintain charging infrastructure. By incorporating some of our other distributed energy technologies, we will be able to offer one of the most comprehensive charging solutions in the market.”

Charles Cameron
Director of Technology & Engineering, Centrica

 **Find out more on Driivz**
centrica.com/driivzinvestment



200,000

vehicles already using
the Driivz system

20%

EV share of new car
sales by 2030

Centrica Consumer

Here for you when you need us most

Through the commitment of our people and digital transformation we are in a better position to meet our customers' needs.

Protecting our customers during the 'Beast from the East'

Thousands of our customers were hit by ferocious winter weather conditions. Faced with unprecedented demand for help, our colleagues showed unwavering commitment to keep them safe and warm.

From 28 February to 4 March 2018 blizzards, high winds, drifting snow and sub-zero temperatures caused major disruption across the length and breadth of the UK. The 'Beast from the East' brought some of the most testing weather conditions experienced for many years and created unprecedented demand from our customers.

We received three times as many calls as we would on a typical winter's day and customer breakdown demand was around 150% higher than usual, with many breakdowns caused by frozen external pipes. At the same time as this surge in customer demand, we had to close two of our call centres in Scotland, as colleagues were unable to get into work safely.

Despite the challenges faced, our people showed unfailing commitment to our customers, going above and beyond the call of duty to keep them safe and warm, and living up to Our Values of Care, Courage and Collaboration.

While we could not get to every customer as quickly as we would have liked, the office teams and field managers worked tirelessly to help customers fix their own problems if possible and direct them to self-fix videos on social media platforms. Over 6,000 fan heaters were distributed to vulnerable customers, making sure they had a temporary heat source until an engineer could get to them.

Self-fix videos



Find out more: [Preparing for heavy snow](https://centrica.com/preparingforsnow)
centrica.com/preparingforsnow



Find out more: [How to thaw a condensate pipe](https://centrica.com/condensatepipe)
centrica.com/condensatepipe



#winterheroes

Engineer Steve Jackson walked for more than a mile through the snow with his tools in a backpack to reconnect a customer who had been without heat and water for two days. He then walked back to his van and made more customer visits. Steve walked home at the end of the day after having to abandon his van in the snow.



Dave Shipp
[@daveshipp19](https://twitter.com/daveshipp19) @BritishGas *Your engineer Steve (17249) has just repaired our boiler. What a hero! Walked some distance in -12 to get here. Fantastic. Thank you.*

02 Mar 2018

Jackie Robertson worked two unscheduled nightshifts at her customer contact centre, in addition to her normal dayshift.

"I always think 'What if that's my mum or dad that's struggling'. Especially in that weather if they can't get their gas on. I put myself in their shoes. I wouldn't want them left with nothing."

Jackie Robertson
Customer Service Advisor

500,000

incoming calls from customers in one 45-minute period

150%

increase in boiler breakdown demand



65%

reduction in time to service each claim

25%

reduction in calls per claim

30%

increase in renewals

“Good prompt service. All issues always resolved in a timely and professional manner. Automated claims process online is awesome!!”

Sandra Pate
Customer

Transforming customer experience at Home Warranty of America

Leah Barton – Vice President, Home Protection, at Centrica Consumer – explained HWA’s drive to provide better service to customers who make claims for home repairs and breakdowns.

Unexpected issues at home are stressful. Something has gone wrong; your family is affected, and you want to make things right as quickly as possible. With our new claims system, we’re able to get the right contractor to a customer’s home, communicate more clearly to them and get their homes back in order quickly.

If you go back 18 months, our customer experience was not where we wanted it to be. The problem was that when a customer placed a claim, it would be assigned to an independent contractor – with little visibility to the customer or to us about whether the job would be accepted, or what the claim status was as it progressed. This resulted in frequent customer calls and long times to service – not the effortless experience we desired.

We decided we had to fix it. In mid-2018 we launched a new online automated claims system. Now, our customers receive a link to track the status of their claim online. It’s easier for contractors to accept jobs and communicate with us, and we can take action if we don’t see a claim progressing smoothly.

As a result, we’ve seen a reduction in time to service and in the number of touchpoints required to resolve a claim. Customers are calling us less often and getting their issues resolved more quickly. The better service has also helped our efforts to improve renewal rates, which are up from 35% last year to over 45% now.

Everyone’s happier. We have a much clearer understanding across our customers, contractors, contact centre agents and back office colleagues about what’s happening at any given time.



“The electrician went above and beyond in evaluating not only for the issue I called him out on but also on things he noticed that I should know. SUPER JOB!”

Larry Wallace
Customer

Centrica Business

A trusted energy partner for business customers

We supply the energy and solutions to help our business customers operate more efficiently and sustainably to achieve commercial success.

How we helped a valued customer to make the most out of saving energy

Centrica Business Solutions enabled paper maker Sappi to double its earnings from Demand Side Response (DSR), where companies can receive payments from the grid operator for reducing energy consumption at peak times.

Sappi is the world's leading producer of high-quality coated fine paper, making 5.7 million tonnes a year. It's a very energy-intensive process, so the company cuts its electricity costs by participating in DSR programmes.

That's what Sappi was doing at its combined pulp and paper mill at Lanaken in Belgium. But the results were disappointing. It wasn't getting a high enough return to offset rising electricity costs. Fortunately, Centrica Business Solutions was able to help.

To earn higher returns, Sappi needed to achieve much faster reaction times – just 30 seconds – when called on to reduce consumption. All this while avoiding any impact on day-to-day operations.

Our solution focused on the pulp mill. Because it produces pulp which is then held in stock, it can be halted at times without affecting paper production downstream.

“This technology and portfolio solution allowed us to leverage our flexible processes and to double our annual Demand Side Response earnings.”

Christiaan Geers
Manager RM/Utilities, Sappi Lanaken



“Sappi is a long-standing customer with whom we have built an excellent, close relationship. That's very important. We are always thinking about what's next for the business in terms of processes, flexibility and optimisation.”

Jeroen Verbeeck
Sales Manager, Centrica Business Solutions

We installed our technology, which enables ultra-fast automated response. We placed Sappi in a portfolio of providers, which reduces the risk of being called upon by the grid when it's not convenient. And we safeguarded paper production by monitoring stocks of pulp and making sure they didn't get too low.

The result: greatly increased DSR payments for Sappi with no impact on production.

30

seconds response time

Zero

impact on production

100%

increase in DSR payments



£420,000

annual cost savings

23%

reduction in CO₂

15 years

energy performance contract

Forging a partnership in patient care

How we helped a major hospital to cut its energy costs and meet tough new environmental targets.

Poole Hospital NHS Foundation Trust is a large, acute general hospital on the south coast of England. Saddled with ageing equipment and a maintenance backlog, it was struggling to manage its energy needs.

But by working in partnership with Centrica Business Solutions, the Trust was able to make major upgrades which will cut costs and energy consumption, while releasing funds for investment in the most important thing – patient care.

The £6.7 million project included a new Combined Heat and Power (CHP) unit, new standby generator and controls, steam generators and boilers, an upgraded air handling unit, and improved lighting both internally and externally.

Some of the results were immediate. Overall energy demand at the hospital fell by 29%. The project is expected to deliver annual cost savings of £420,000, and a carbon reduction of 23%. And the savings are expected to grow every year in line with fuel costs and carbon targets.

Poole Hospital now has a fit-for-purpose energy infrastructure that it can depend on for decades to come. What's more, we handed over the project on time and with no interruption to clinical services.

“The challenge was to deliver the project efficiently and safely (which we did). We didn’t look on the scheme purely as a business venture, but more as a partnership where we could help the Trust to achieve its goals.”

Paul Murray

Account Manager, Centrica Business Solutions

“The partnership with Centrica Business Solutions gives us the peace of mind that our energy needs are being taken care of while we concentrate on our main job of looking after patients and improving care.”

George Atkinson

Associate Director of Estates, Poole Hospital NHS Foundation Trust



Find out more on Distributed Energy:
Powering the future of healthcare at
centrica.com/poweringhealthcare

Exploration & Production

Securing energy supplies for the future

Our more focused Exploration & Production division is exploring new prospects and breathing new life into existing assets.



Drilling for the future West of Shetland

A new offshore prospect has the potential to double Spirit Energy's current production.

In its first major deal as a newly created business, Spirit Energy is funding a \$180 million (£139 million) drilling campaign in the 'frontier' region 60 miles West of Shetland, seeking to exploit oil stored in a non-traditional rock formation, a 'fractured basement'. The project could transform the business, as well as securing important new energy supplies for UK customers.

In fractured basins, oil resides within cracks in the volcanic rock, unlike more conventional UK reservoirs where it's found in the pores of sandstone rock.

This opportunity has the potential to be one of the last world-class developments in the UK, holding an estimated 2 billion barrels of oil across four licences. In everyday terms, that's the same sort of size as Centrica's Morecambe Bay field, which at its peak produced enough gas to supply a fifth of all UK households.

Working with Hurricane Energy, the licence operator, three test wells will be drilled into two of the licences, Warwick and Lincoln. If the tests are successful, and the field moves towards full development, Spirit Energy will become the licence operator, cementing its position as one of Europe's leading oil and gas companies.

2 billion

estimated barrels of oil

"It's not often that you get the opportunity to work on something like this. It could become the cornerstone asset of Spirit Energy for the next 20 years."

Viv Harvey
Manager Geology (TA), Spirit Energy

Fractured basement production presents a new opportunity for Spirit Energy and for the UK.

Example of a similar rock formation in the Shetlands





80

jobs safeguarded

2.5m

UK homes supplied with gas

New lease of life until 2030 and beyond

How we're working with others to secure the future of one of the UK's key gas processing sites.

In 2018 Centrica Storage Limited (CSL) won a landmark contract worth more than £200 million to process gas from the Tolmount field, one of the biggest recent discoveries in the Southern North Sea.

“Tolmount marks a significant milestone for the future of the Easington terminal and clearly shows CSL is open for business as a gas processing hub for the Southern North Sea gas basin.”

Greg McKenna
Chief executive officer, CSL

“From the outset we were impressed by the ‘can-do’ mentality of the Centrica Storage team as well as their management of the existing facilities. Together we completed detailed and complex negotiations in record time, enabling our Tolmount gas field to be sanctioned and breathing new life into the Easington terminal.”

Robin Allan
Chief operating officer, Premier Oil

The contract will extend the life of our Easington gas terminal until at least 2030, safeguarding around 80 jobs. With production from the former storage facility at Rough due to run out by 2022, securing this contract was vital to the future of Easington.

The Tolmount field development project – a joint venture between HGS, Premier Oil and Dana Petroleum – could produce enough gas to supply around 2.5 million UK homes for 10 to 15 years. So, Easington will play a key part in keeping UK customers supplied with gas for many years to come.

Hundreds more jobs will be created over the next two years as extensive modifications are made to the terminal to receive and process the gas, which will arrive through a new pipeline. The Tolmount platform will be an unmanned facility which CSL will control remotely from Easington.

Group Financial Review



“In addition to the interim dividend of 3.6p per share, the proposed final dividend is 8.4p, giving a total full year dividend of 12.0p (2017: 12.0p).”

Chris O'Shea
Group Chief Financial Officer

Group Revenue

£29.7bn

2017: £28.0bn
▲ 6%

Full year dividend per share

12.0p

2017: 12.0p

Adjusted operating profit

£1,392m

2017: £1,247m
▲ 12%

Statutory operating profit

£987m

2017: £481m
▲ 105%

Statutory profit attributable to shareholders

£183m

2017: £328m
▼ 44%

Adjusted effective tax rate

41%

2017: 22%
▲ 19%

Adjusted basic earning per share (EPS)

11.2p

2017: 12.6p
▼ 9%

Statutory basic earning per share (EPS)

3.3p

2017: 6.0p
▼ 44%

Group revenue

Group revenue increased by £1.7 billion, or 6%, to £29.7 billion (2017: £28.0 billion). This was largely due to a £1.8 billion, or 12%, increase in Centrica Business, reflecting increased activity in Energy Marketing and Trading and increased gas sales volumes in North America Business. Centrica Consumer Group revenue fell by £0.2 billion largely due to the impact of lower energy customer accounts, and Exploration and Production Group revenue was broadly flat.

Operating profit

Statutory operating profit was £987 million (2017: £481 million). Adjusted operating profit was £1,392 million (2017: £1,247 million). A table summary reconciling the different profit measures is shown below.

Total adjusted operating profit increased 12% to £1,392 million (2017: £1,247 million). Centrica Consumer profit fell 15% with lower profit in UK Home reflecting the impacts of the UK energy prepayment tariff cap, lower energy account holdings, increased imbalance costs and high levels of central heating breakdown call-outs in UK Home services in Q1.

Centrica Business profit fell by 25%, due to the impact of continued retail power margin pressures in North America Business, legacy gas contracts in EM&T becoming loss-making and an increased loss in DE&P reflecting continued investment in growth. These impacts were partially offset by the improved performance from UK Business and the £62 million one-off charge in North America Business not being repeated. Profit from E&P increased 159%, benefiting from the transition of Rough from a storage facility to a production asset, higher European production resulting from the consolidation of Spirit Energy and higher achieved gas and liquids prices.

Group finance charge and tax

Net finance costs decreased to £273 million (2017: £344 million), largely reflecting the repurchase of £1.1 billion of gross debt which was completed in Q1 2018. This excludes costs of £139 million associated with the debt repurchase, which are included in exceptional items.

Adjusted operating cash flow

£2,245m

2017: £2,069 million

▲ 9%

Adjusted earnings

£631m

2017: £698 million

▼ 9%

Group net debt

£2,656m

2017: £2,596 million

▲ 2%

Operating profit

Year ended 31 December	2018			2017		
	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m	Business performance £m	Exceptional items and certain re-measurements £m	Statutory result £m
Adjusted operating profit / (loss)						
UK Home	668			819		
Ireland	44			47		
North America Home	123			114		
Connected Home	(85)			(95)		
Centrica Consumer	750			885		
UK Business	40			4		
North America Business	81			71		
Distributed Energy & Power (DE&P)	(81)			(53)		
Energy Marketing & Trading (EM&T)	54			104		
Central Power Generation (CPG)	27			35		
Centrica Business	121			161		
Exploration & Production (E&P)	521			201		
Total adjusted operating profit	1,392			1,247		
Interest and taxation on joint ventures and associates	–			(7)		
Group operating profit / (loss)	1,392	(405)	987	1,240	(759)	481
Net finance cost	(273)	(139)	(412)	(344)	–	(344)
Taxation	(461)	128	(333)	(191)	352	161
Profit / (loss) for the period	658	(416)	242	705	(407)	298
Profit attributable to non-controlling interests	(27)			(12)		
Adjusted earnings	631			693		

Statutory taxation on profit increased to a charge of £333 million (2017: credit of £161 million), with a statutory effective tax rate of 58%. Business performance taxation on profit increased to £461 million (2017: £191 million) and after taking account of tax on joint ventures and associates, the adjusted tax charge was £458 million (2017: £197 million). An adjusted effective tax rate calculation for both 2017 and 2018 is shown below.

The Group adjusted effective tax rate increased to 41% (2017: 22%), largely due to a number of one-off credits in the 2017 charge. Adjusting for these credits, the Group's underlying adjusted effective tax rate for 2017 was 40%.

Group adjusted earnings

Profit for the year from business performance decreased to £658 million (2017: £705 million) and after adjusting for non-controlling interests, adjusted earnings fell by 9% to £631 million (2017: £693 million). This reflects the increased tax charge, partly offset by higher adjusted operating profit and lower net finance costs, all as described on page 37. Adjusted basic EPS was 11.2p (2017: 12.5p) reflecting the lower earnings.

Exceptional items

A net exceptional pre-tax charge included within Group Operating Profit of £185 million was recognised in 2018 (2017: £884 million).

The Group recognised a net write-back of £90 million on E&P assets. It recognised £57 million of net write backs on UK and Norwegian oil and gas fields predominantly due to an increase in near-term liquid prices, partially offset by a reduction in long-term price forecasts. It also recognised a £33 million write-back of decommissioning provisions for assets previously impaired.

The Group also recognised an onerous contract provision of £44 million in relation to the Spalding tolling contract and an £18 million impairment in relation to gas-fired power station assets in the Distributed Energy and Power segment, following the suspension of the UK Capacity Market in November 2018 and reflecting reductions in clean spark spread price forecasts.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment requiring equality of treatment for men and women in relation to Guaranteed Minimum Pension benefits in contracted out UK pension schemes for the period 1978 to 1997. As a result of this judgment, Centrica's scheme liabilities have been recalculated and a past service cost of £43 million has been charged to the Income Statement.

As a result of the Group's strategic review announced in 2015, the Group incurred a further £170 million of restructuring costs in 2018, principally relating to redundancy, data migration, digitalisation of the customer journey, business closures and other transformational activity.

The Group also incurred one-off transaction costs within net financing costs of £139 million relating to the debt repurchase programme completed in 2018.

These charges in total generated a taxation credit of £89 million (2017: £408 million). As a result, total net exceptional charges after taxation were £235 million (2017: £476 million).

Certain re-measurements

The Group enters into a number of forward energy trades to protect and optimise the value of its underlying production, generation, storage and transportation assets (and similar capacity or off-take contracts), as well as to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair valued under IFRS 9. The Group has shown the fair value adjustments on these commodity derivative trades separately as certain re-measurements, as they do not reflect the underlying performance of the business because they are economically related to our upstream

Group tax charge

	Non-E&P		E&P		E&P	Group
	UK £m	Non-UK £m	UK £m	Non-UK £m	Total £m	Total £m
Year ended 31 December 2018						
Adjusted operating profit	645	226	60	461	521	1,392
Share of JV/associate interest	(3)	–	–	–	–	(3)
Net finance cost	(277)	(42)	73	(27)	46	(273)
Adjusted profit before taxation	365	184	133	434	567	1,116
Taxation on profit (excluding PRT)	57	38	51	364	415	510
Petroleum Revenue Tax (PRT)	–	–	(49)	–	(49)	(49)
Share of JV/associate taxation	(3)	–	–	–	–	(3)
Adjusted tax charge	54	38	2	364	366	458
Adjusted effective tax rate	15%	21%	2%	84%	65%	41%

	Non-E&P		E&P		E&P	Group
	UK £m	Non-UK £m	UK £m	Non-UK £m	Total £m	Total £m
Year ended 31 December 2017						
Adjusted operating profit	794	252	(99)	300	201	1,247
Share of JV/associate interest	(1)	–	–	–	–	(1)
Net finance cost	(266)	(82)	32	(28)	4	(344)
Adjusted profit before taxation	527	170	(67)	272	205	902
Taxation on profit (excluding PRT)	35	(2)	(27)	242	215	248
Petroleum Revenue Tax (PRT)	–	–	(57)	–	(57)	(57)
Share of JV/associate taxation	6	–	–	–	–	6
Adjusted tax charge	41	(2)	(84)	242	158	197
Adjusted effective tax rate	8%	(1%)	125%	89%	77%	22%

Operating cash flow

Year ended 31 December	2018 £m	2017 £m
Net cash flow from operating activities	1,934	1,840
Add back/(deduct):		
Net margin and cash collateral inflow ⁽¹⁾	(57)	(136)
Payments relating to exceptional charges	248	176
Dividends received from joint ventures and associates	22	58
Defined benefit deficit pension payment	98	131
Adjusted operating cash flow	2,245	2,069

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

assets, capacity/off-take contracts or downstream demand, which are typically not fair valued. The operating profit in the statutory results includes a net pre-tax loss of £220 million (2017: gain of £125 million) relating to these re-measurements, or a loss of £181 million after tax (2017: gain of £69 million). The Group recognises the realised gains and losses on these contracts in business performance when the underlying transaction occurs. The profits arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

Group statutory earnings

The statutory profit attributable to shareholders for the year was £183 million (2017: £328 million). The reconciling items between Group profit for the period from business performance and statutory profit are related to exceptional items and certain re-measurements. The difference compared to 2017 is due to the lower profit from business performance and a net loss from certain re-measurements compared to a net profit in 2017, partially offset by a lower post-tax net exceptional charge, all as described above. The Group reported a statutory basic EPS of 3.3p (2017: 5.9p).

Dividend

In addition to the interim dividend of 3.6p per share, the proposed final dividend is 8.4p, giving a total full year dividend of 12.0p (2017: 12.0p).

Group cash flow, net debt and balance sheet

Net cash flow from operating activities increased to £1,934 million (2017: £1,840 million), with higher EBITDA being partially offset by lower net working capital inflows and higher payments relating to exceptional charges. Adjusted operating cash flow, which is reconciled to net cash flow from operating activities in the table above, increased by 9% to £2,245 million.

Net cash outflow from investing activities was £1,007 million (2017: inflow of £32 million). The change compared to 2017 is predominantly due to proceeds from net disposals in 2017 of £825 million, mainly relating to the Lincs wind farm, UK gas-fired power stations and Canadian E&P assets, and slightly increased organic capital expenditure and acquisition spend in 2018.

Net cash outflow from financing activities was £2,540 million (2017: £1,070 million) reflecting the impact of the debt repurchase programme, a bond maturity in September and higher cash equity dividends reflecting a lower scrip take up.

The Group's net debt as at 31 December 2018 was slightly up to £2,656 million (31 December 2017: £2,596 million), which includes cash collateral posted or received in support of wholesale energy procurement.

Net assets increased by £516 million to £3,948 million (31 December 2017: £3,432 million). Total assets decreased by £122 million, including reduced cash and cash equivalent balances due to the impact of the debt repurchase programme and higher trade and other receivables and retirement benefit assets. Total liabilities decreased by £638 million, with lower borrowings resulting from the debt repurchase programme and bond maturity, and a reduction in the pension liability partially offset by increased trade payables.

2018 Acquisitions and disposals

The Group completed a number of bolt-on acquisitions during the year.

On 28 February 2018 the Group acquired NJR Retail Services company for \$24 million (£17 million). On 1 July 2018, the Group acquired North American mid-continent retail operations from BP Canada Energy Marketing Corporation for \$39 million (£31 million). On 31 December 2018 the Group acquired certain retail power operations from Source Power & Gas Business LLC for \$26 million

(£21 million). These businesses will all form part of North America Business.

On 27 November 2018, the Group acquired T.A. Kaiser Heating and Air Inc. for \$19 million (£15 million). This business will form part of North America Home.

Events after balance sheet date

Details of events after the balance sheet date are available at centrica.com/ar18

Risks and capital management

The nature of the Group's principal risks and uncertainties are largely unchanged from those set out in its 2017 Annual Report, although there continues to be a high degree of uncertainty surrounding the process for the UK's exit from the European Union. Further details are set out in this 2018 Annual Review on pages 41 to 51. Details of how the Group has managed financial risks such as liquidity and credit risk are available at centrica.com/ar18. Details on the Group's capital management processes are available at centrica.com/ar18

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, including changes of accounting presentation and selected key sources of estimation uncertainty, are available at centrica.com/ar18

Our View on Taxation

The Group takes its obligations to pay and collect the correct amount of tax very seriously.

Responsibility for tax governance and strategy lies with the Group Chief Financial Officer, overseen by the Board and the Audit Committee.

Our approach

Wherever we do business in the world, we take great care to ensure we fully comply with all of our obligations to pay or collect taxes and to meet local reporting and disclosure requirements.

We fully disclose information on ownership, transactions and financing structures to the relevant tax authorities. Our cross-border tax reporting reflects the underlying commercial reality of our business.

We are committed to providing disclosures and information necessary to assist understanding beyond that required by law and regulation.

We do not tolerate tax evasion or fraud by our employees or other parties associated with Centrica. If we become aware of any such wrongdoing, we take appropriate action.

We ensure that income and costs, including costs of financing operations, are appropriately recognised on a fair and sustainable basis across all countries where the Group has a business presence. We understand that this is not an exact science and we engage openly with tax authorities to explain our approach.

In the UK we maintain a transparent and constructive relationship with Her Majesty's Revenue & Customs (HMRC). This includes regular, open dialogue on issues of significance to HMRC and Centrica. Our relationship with fiscal authorities in other countries where we do business is conducted on the same principles.

We carefully manage the tax risks and costs inherent in every commercial transaction, in the same way as any other cost. However, we do not enter into artificial arrangements in order to avoid taxation nor to defeat the stated purpose of tax legislation.

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

The Group's tax charge, taxes paid and the UK tax charge

The Group's businesses are subject to corporate income tax rates as set out in the statutory tax rates on profits table. The overall tax charge is therefore dependent on the mix of profits and the tax rate to which those profits are subject.

Statutory tax rates on profits

Group activities

UK supply of energy and services	19.0%
UK oil and gas production	40.0%
Norway oil and gas production	78.0%
Netherlands oil and gas production	50.0%
United States supply of energy and services	21.0%
Canada supply of energy and services	26.0%
Denmark energy services	22.0%
Republic of Ireland supply of energy and services	12.5%

Tax charge compared to cash tax paid

	Current tax charge/(credit) £m	Cash tax paid/(recovered) £m
UK	(74)	(38)
Europe	234	86
North America	50	13
Total	210	61

During the year, the UK received a cash refund of tax overpaid in periods prior to 2015; UK tax charge includes a credit of £50 million of PRT related to its upstream activities.

For details on the Group's effective tax rate and a breakdown between relevant jurisdictions and segments, see pages 36 to 39.

 **Further information on the tax charge is available at**
centrica.com/ar18

 **Our Group Tax Strategy, a more detailed explanation of the way the Group's tax liability is calculated and the timing of cash payments, is provided on our website at**
centrica.com/responsibletax

Our Principal Risks and Uncertainties

Understanding those risks that impact our strategy and determining how much risk we would like to take

Decentralisation of energy systems, shifting power to the consumer and increasing digitisation, presents both opportunities and risks. Identifying and appropriately managing these risks is critical to the successful delivery of our strategy. Within our System of Risk Management and Internal Control we assess risk in relation to the delivery of Group Priorities and determine the level of risk we are prepared to take:

- safety, compliance and conduct: Our appetite for taking risk in this area is as low as reasonably practicable in relation to: ensuring the safety of our people, customers and communities; conducting our business operations in compliance with laws and regulations; protecting personal and business data about our customers and employees; and managing our financial reporting risks;
- customer satisfaction and operational excellence: We have a moderate risk appetite to allow us to pursue innovative opportunities. We are driven to satisfy the changing needs of our customers;
- cash flow growth and strategic momentum: We have a moderate to high risk appetite for seeking opportunities to deliver cash flow growth and our target return on capital;
- cost efficiency and simplification: We have a low to moderate risk appetite for failing to implement and manage improvements sustainably and in a rigorous and systematic way; and
- people and building capability: We accept a moderate level of risk in finding ways to attract, develop and reward people with the diverse capabilities needed to deliver our ambitions.

“We can’t predict the future but we can empower better business performance by having the credibility, courage and confidence to raise the issues that really matter.”

Carolyn Clarke
Group Head of Internal Audit, Risk and Control

Strengthening our System of Risk Management and Internal Control

Each business unit and Group function is responsible for identifying and assessing its significant risks. We consider both the potential impact to the Group and the likelihood of occurrence on an inherent and residual basis and aggregate these risks within defined Principal Risk categories. The Executive Committee then considers these perspectives alongside broader external and internal factors to create a Group-wide set of prioritised risks.

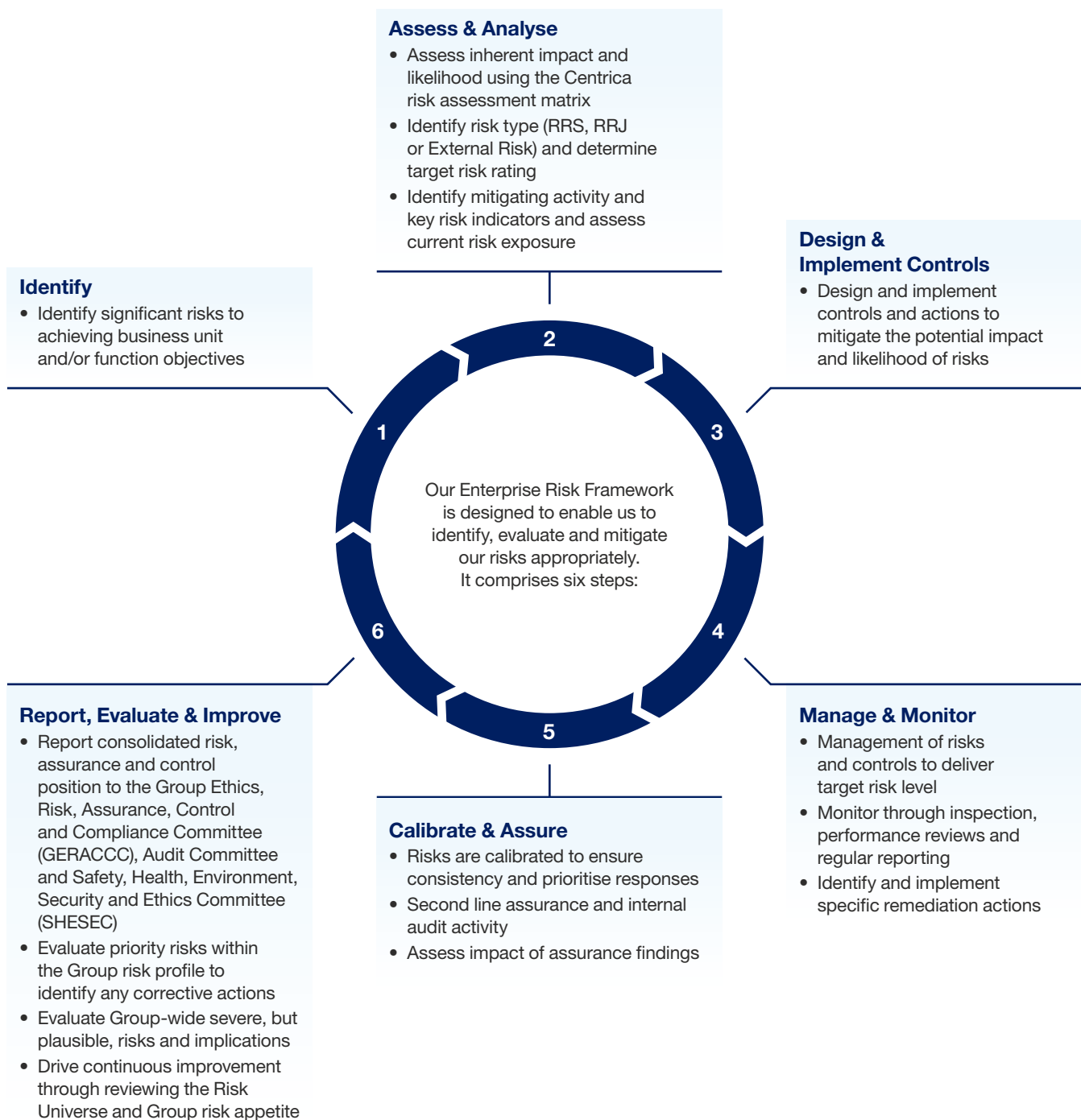
We categorise our risks as:

- **Risk Requiring Standards (RRS):** Risk with negative impacts that we control through Standards and Management Systems, for example process safety or data security.
- **Risk Requiring Judgement (RRJ):** Risk that we choose to take to execute our business strategy, for example new products or business improvement opportunities.
- **External Risk:** Risk that requires a focus on scenario and contingency planning with little or no ability to reduce likelihood, for example extreme weather or geopolitical turbulence.

We identify all ‘severe, but plausible’ consequences of our risks, where the realisation is more than remote in likelihood. These consequences are considered in our assessment of viability as described on page 51.

On an annual basis, we evaluate our System of Risk Management and Internal Control, learning from any control incidents that have arisen, to ensure we are mitigating risks in line with our risk appetite. We are evolving our System of Risk Management and Internal Control to ensure it remains appropriate, particularly as we expand into new jurisdictions and develop our business priorities.

Evaluating risks through our Enterprise Risk Framework



Our System of Risk Management and Internal Control: How Centrica Works



Mitigating Risk through our System of Risk Management and Internal Control

Our System of Risk Management and Internal Control is central to our governance processes and comprises the following elements:

- **What we stand for:**
 - **Our Purpose:** We are an energy and services company. Everything we do is focused on satisfying the changing needs of our customers.
 - **Our Values:** Our Values of Care, Collaboration, Courage, Delivery and Agility underpin our strategy and Priorities.
 - **Our Code:** This was launched in early 2018 to replace our Business Principles and provides the foundation for how we operate.
- **Our strategic framework:**
 - **Strategy:** This is aligned throughout the organisation by the five Group Priorities.
 - **Financial Framework:** Sets out parameters and targets within which we operate to guide our strategic planning and financial decision-making.
 - **Enterprise Risk Framework:** Incorporates the Principal Risks within the Group Risk Universe.
- **Our governance:**
 - **Board and Committees:** Structured to effectively execute required duties and through which our Principal Risks are monitored.
 - **Legal entities:** Subsidiary company legal entities with boards of directors required to meet legal and regulatory obligations.
 - **Delegations of authority:** Accountability is delegated through the organisation to individuals in accordance with risk appetite.
 - **Executive and Committees:** Oversight to ensure appropriate planning and performance management.

- **How we are organised and managed:**
 - **Management Systems:** The detailed policies, standards and processes establishing the mandatory requirements and which are required for the systematic management of related risks.
- **How we provide assurance:**
 - **Second line assurance:** Ensuring policies and standards are complied with through monitoring and testing activities performed by individuals who are not directly responsible for the operation of the controls relating particularly to Finance, HSES, and Digital Technology Services.
 - **Internal Audit:** Providing confidence to the Board, via the Audit Committee, that Centrica has appropriate risk management procedures and effective controls in place.

“With advances in technology and the increased decentralisation and disintermediation in our industry it is increasingly important to understand the breadth of our risks and how they are being managed.”

Alison Hill
Group Head of Enterprise Risk

Changes in risk climate and emerging risks

We monitor closely the evolving risk climate in relation to each of our Principal Risks. We consider that our overall risk climate has broadly remained unchanged over the past year. However, within specific Principal Risks there have been movements. Notably the risks related to regulatory intervention declined with the clarity provided on the SVT Price Cap, but the broader political uncertainty counteracts this. We monitor those risks that could impact on the Group in the future, including risks relating to our competitiveness, global energy and services trends, political developments and climate change.

Emerging risks relating to competitiveness result from the need to be agile in delivering growth in gross margin in an environment where there are many new entrants and our competitive landscape is evolving. We focus on serving our customers and have worked in 2018 to strengthen our leadership teams. Quarterly performance reviews are held with all parts of the business to monitor progress against targets and embed continuous improvement.

We are adapting our company to be agile and to embrace the future as a 21st century energy and services company. The shifting of power to the consumer means today's customers are accustomed to using the Internet of Things (IoT). To stay at the forefront of technology, we are increasing our investment in Connected Homes with innovations to give customers control over their home energy management. Similarly, our Distributed Energy & Power business helps customers gain competitive advantage from energy and allows us to offer end-to-end solutions. Ongoing digitisation will continue to provide opportunities to improve productivity and accessibility of energy systems, and therefore customer satisfaction, and may also improve safety and sustainability. However, digitisation also brings new security and privacy risks. Security operations monitoring teams are developing new ways to detect physical, cyber and insider attacks. We also have a Proactive Cyber Assurance team in place to identify system vulnerabilities before they are exploited.

Risks relating to the global political and economic environment, global disease outbreaks, interstate conflict, trade wars, terrorist attacks and climate change are monitored with a focus on the countries in which we operate. As our Group footprint grows, we need to be increasingly attentive to risks specific to new jurisdictions in which we operate. We manage relationships with multiple stakeholders to understand how global events can impact on our operations and monitor macro-environmental factors to assess the impact on commodity prices.

Climate change presents particular concerns and we are focused on ensuring we can respond to increased weather volatility, with its potential to harm our customer service levels, if we are unable to adapt appropriately to events like the extreme cold weather in the UK during the first few months of 2018. Lessons learnt from such events have helped us to put new measures in place for similar issues in the future.

Brexit risks

Given the UK's intention to leave the European Union on 29 March 2019, we established a dedicated Brexit project group following the 2016 referendum. During 2018 and into 2019, that group worked intensively with colleagues across Centrica to anticipate and mitigate, as far as possible, any adverse impacts on the Group and our customers. These efforts were strongly focused on the 'no deal' risk of leaving the EU without an agreement, addressing both the potential financial consequences and the need to maintain operational business continuity. Particular attention was paid to our pan-European energy trading activities, our Bord Gáis business operating within the Integrated Single Electricity Market (ISEM) on the island of Ireland, the impact of a 'no deal' Brexit on cross-border trade in goods (procurement and supply chains) and the need to facilitate continued cross-border transfers of protected personal data. We have completed our business impact assessment and this has been independently assessed through our Internal Audit function and advisors. We have individual working groups with clear accountabilities established for the necessary contingency plans and 'no deal' risk mitigation for both the direct and indirect consequences.

Specific and material 'no deal' risks considered in February 2019 include the following:

- our energy trading entities may face additional obligations under EU financial services legislation (particularly, the European Market Infrastructure Regulation) because that legislation will no longer recognise UK energy derivative trades as it does within the EU;
- we do not yet know whether we have a UK obligation to present EU ETS carbon permits in 2019, making it more difficult to manage our carbon position;
- the future of the ISEM on the island of Ireland may be at risk;
- efficient day-ahead access to the electricity interconnectors between GB and the Republic of Ireland/Northern Ireland may not be available for some time after Brexit, making it more complex for Bord Gáis to manage its electricity pricing risks;
- we and/or our customers will face the risks of a weaker pound, WTO import duties and logistical delays at UK ports of entry – putting up the costs of EU-sourced equipment and potentially making it more difficult to manage unplanned outages of energy producing facilities;
- since the UK will lose blanket EU approval for cross-border transfers of personal data, we are taking steps to include EU-approved 'model clauses' within all the relevant contracts; and
- a weaker pound, lower UK interest rates and higher UK inflation in the wake of a 'no deal' Brexit could push up the level of UK corporate pensions deficits, including our own.

Principal Risks

The Group Risk Universe is made up of a holistic framework of Principal Risks, laid out below in the Group's order of prioritisation. The Board makes a robust assessment of these Principal Risks, considering future performance and our ability to deliver the strategy, including solvency and liquidity risks. For each Principal Risk, we discuss the nature of the risk and the impact on our Group Priorities. Each Principal Risk is overseen directly by the Board or one of its committees, with the Board retaining overall responsibility for risk across the Group.

Our assessment of risks extends to risks associated with our investments in joint ventures and associates, including our nuclear business. The impact and likelihood of these risks are evaluated and reported using a consistent approach.

Description	Political and Regulatory Intervention Risk of political or regulatory intervention and changes, including those resulting from Brexit, or a failure to influence such changes. External Risk Governance Oversight: Board Priority: Cash flow growth and strategic momentum	Financial Market Risk of financial loss due to our exposure to market movements, including commodity prices, inflation, interest rates and currency fluctuations. External Risk with elements that are Risk Requiring Judgement Governance oversight: Board and Audit Committee Priority: Cash flow growth and strategic momentum	Health, Safety, Environment and Security (HSES) Risk of failure to protect the health, safety and security of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change. Risk Requiring Standards Governance Oversight: Board and Safety, Health, Environment, Security and Ethics Committee Priority: Safety, compliance and conduct
Potential impacts	As described on page 44, Brexit presents risks that are being closely managed in relation to changing policies in the energy market and with regards to carbon emissions. While the results of the Ofgem investigation into Standard Variable Tariffs is now known, there is continued regulatory pressure in the Consumer Energy Supply markets in the UK and North America that could result in the erosion of our profit margins. There is a risk of partial/total regulation of a small number of retail and/or natural gas markets in the US. Operating costs could also increase in the case of further smart meter and/or energy efficiency obligations.	Due to our large upstream and downstream business positions, our exposure to adverse price movements in commodity markets could impact profitability and cash flow generation across the business. While increased volatility in commodity prices could provide more opportunities, it could also give rise to higher collateral costs and/or additional credit risk for both Energy Marketing & Trading (EM&T) and North America Business. Further, it would create volatility in asset and contract valuations. An unseasonably warm autumn/winter in the UK and a cooler summer in the US could reduce customer demand significantly.	Our operations have the potential to result in personal or environmental harm. Significant HSES events could have regulatory, financial and reputational repercussions that would adversely affect some, or all, of our brands and businesses. We recognise and report on incidents that do occur, as described on page 19.
Mitigation	• We are committed to an open, transparent and competitive UK energy market which provides choice for consumers. • Executive Directors and senior management actively engage in discussions with political parties, regulatory authorities and other stakeholders. • We have dedicated Corporate Affairs and Regulatory teams which examine upcoming political and regulatory changes and their impact. • We have a dedicated Brexit project group which aims to identify and assess the many Brexit-related issues which might impact the Group and our customers.	• Financial risk is reviewed regularly by the Financial Risk, Assurance and Control Committee, and the Group Ethics, Risk, Assurance, Control and Compliance Committee to assess financial exposures and compliance with risk limits. Regular review is also undertaken by the Audit Committee. • Stress testing analysis is presented weekly to the EM&T Risk Committee. • As we move into new trading arrangements, we are focused on ensuring that our financial risk policies remain appropriate to the risks we face. • We have appropriate hedging strategies in place that are regularly updated to mitigate exposure to commodity and financial market volatility. • We are investing in our systems to further automate and strengthen our control environment.	• We are restructuring our business to make it less carbon intensive and we engage with climate change bodies and NGOs to offer our perspective, understand the direction of future actions and assess our readiness to respond to change. • We engage with regulatory agencies such as the Environment Agency, Oil and Gas Authority and UK HSE to ensure we comply with legislative/regulatory requirements. • HSES Management Systems are established to include the policies, standards and procedures, focusing on areas of concern like process safety, driving and working at heights. • We undertake regular reviews and have assurance processes in place with reporting to the HSES Committee on a quarterly basis. • Security intelligence operating procedures, crisis management plans and business continuity plans are regularly evaluated and tested. • We drive an Incident Free Workplace (IFW) culture across our business. • We continue to invest in training to ensure we maintain safe operating practices and require all employees to complete the relevant online HSES courses for their role.

Description	Strategy Delivery Risk that our strategy is not appropriate to respond to external issues and/or the risk that the strategy is not deliverable due to insufficient capability. Risk Requiring Judgement Governance oversight: Board Priority: Cash flow growth and strategic momentum	External Market Environment Risk that events in the external market or environment could hinder the delivery of our strategy. External Risk Governance oversight: Board Priority: Cash flow growth and strategic momentum	Brand, Trust and Reputation Risk that our competitive position is compromised by poor standards of fairness and transparency, and by failing to protect our brands. Risk Requiring Judgement Governance oversight: Board Priority: Customer satisfaction and operational excellence	
Potential impacts	Successful delivery of our strategy requires serving customers in a way that satisfies their changing needs in a competitive marketplace. Failure to identify changing trends in customers' needs, stay ahead of technological and digital advancements, develop appropriate responses to changing markets and competitive environments, and build the necessary capabilities to compete, have the potential to adversely impact our cash flow growth and value goals.	We operate in highly competitive markets, where customer behaviour, needs and demands are evolving due to digitisation, energy efficiency, climate change, government initiatives and the general economic outlook. Failure to react appropriately and rapidly to changes in customer behaviour could result in the erosion of our customer base, leading to reduced revenues and associated margins. In addition, we are subject to global market volatility in our upstream businesses in commodity markets.	Failure to appropriately manage brand perception, media attention and lobbying from pressure groups could impact customer sentiment and could ultimately result in a reduction in overall customer numbers. Failure to be fair and transparent could lead to reputational damage, falling share prices and, in the case of very poor standards, legal action.	
Mitigation	• The Board sets and reviews the Group's strategy, determining the strategic direction and confirming the strategic choices made by the business. Regular reviews are conducted considering changes in market trends and the competitive environment, and the business response. • The Board and Executive Committee regularly review the capabilities required to deliver on the strategy and address issues as they appear. • We have a clear financial framework to ensure capital is allocated in accordance with our strategy and that balance sheet strength and return on capital boundary conditions are met. • We have dedicated teams to ensure we continue to develop and innovate in new technologies. • Our Digital Technology Services function works in partnership with Change functions to assure and deliver programmes of change.	• We focus on understanding consumer segments and their needs, through products and services that are attractive and competitive. • We undertake regular analysis of commodity price fundamentals and their potential impact on our business plans and forecasts. • Our Market and Competitive Intelligence team monitors movements in markets and provides information to enable appropriate decision-making. • We are increasing our investment in areas like Connected Home and Distributed Energy & Power, that help to satisfy the emerging customer needs of having more control over and awareness of their energy usage. • We have developed Centrica Innovations and our Technology & Engineering function to keep abreast of technological advances.	• We aim to deliver a fair, simplified and transparent offering to all our customers. • We engage with NGOs, consumer and customer groups, political parties, regulators, charities and other stakeholders to identify solutions to help reduce bills and improve trust in the industry. • We review and monitor changes in our customer brand position through Net Promoter Score (NPS). • We are transforming our complaints process to lower backlogs and resolution times, and to address root causes. • We closely monitor key metrics including broken promises/ appointments, grade of service and complaint numbers.	

	Change Management Risk of failure in the identification, alignment and execution of change programmes and business restructuring. Risk Requiring Judgement with elements that are Risks Requiring Standards. Governance oversight: Board Priority: Cost efficiency and simplification	Legal, Regulatory and Ethical Standards Compliance Risk of failure to comply with laws and regulations, and to behave ethically in line with Our Code, resulting in adverse reputational and/or financial impact. Risk Requiring Standards Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee. Priority: Safety, compliance and conduct	Information Systems and Security Risk of reduced effectiveness, availability, integrity and security of IT systems and data essential for our operations. Risk Requiring Standards with elements that are Risks Requiring Judgement Governance oversight: Board, Audit Committee and Safety, Health, Environment, Security and Ethics Committee Priority: Safety, compliance and conduct
	If transformation projects are not aligned to our strategic objectives, or not implemented appropriately, the expected benefits may not be realised and resources for other critical projects may be depleted. There are many transformation initiatives that could be disruptive and/or result in compromise to the control environment if not governed appropriately.	Any real or perceived failure to follow Our Code or comply with legal or regulatory obligations would undermine trust in our business. Non-compliance could lead to financial penalties, reputational damage, customer churn and/or legal action.	Our substantial customer base and strategic requirement to be at the forefront of technological development, means that it is critical that our technology is robust, our systems are secure, and our data is protected. Sensitive data faces the threat of misappropriation, for example from hackers and viruses, leading to potential financial loss and/or reputational damage. Failure to deliver IT solutions in support of the prioritised objectives and change programmes in the business would have consequences both for our organisational transformation and in some cases, our compliance obligations.
	• We have a standardised requirement articulated as Our Approach to Managing Change Impacts. • Transformation programmes are approved by the Board via the Group Strategic Planning and capital allocation process. • Investment appraisal criteria are defined in Group Investment Committee Guidance. • Progress on specific projects is consistently monitored through Steering Groups and reported through to the Board. • We have dedicated change capability at Group and business unit level to monitor the realisation of benefits, the prioritisation of efforts and to share best practice. • We have post-merger integration procedures in place to integrate acquired businesses.	• Regulatory compliance monitoring activities are performed by a single function to drive Group-wide consistency and quality. • Control frameworks are in place to deliver customer experience in line with requirements over sales compliance, billing, retentions, customer correspondence and complaints handling. These are regularly reviewed by relevant leadership teams through KPIs. • Our GDPR Steering Group has had oversight of our cross-functional initiatives to drive compliance and to determine how we govern our data appropriately. • Our Financial Crime team monitors threats throughout the business. • The global 'Speak Up' helpline has been relaunched to provide a consistent Group-wide approach and reinforce the importance of this channel as a means to flag unethical behaviour.	• Our HSES Physical Security and Resilience and Digital Technology Services Information Security Functions have been combined to form a Global Security Function. • Our information security strategy seeks to integrate information systems, personnel and physical aspects to prevent, detect and investigate threats and incidents. • We have established governance bodies to oversee compliance with new security requirements. • We have a Digital Technology Services Strategy Committee in place to track progress of the strategic priorities for technology, data and digital activities. • We regularly evaluate the adequacy of our infrastructure and IT security controls, test our contingency and recovery processes, and undertake employee awareness and training. • Controls testing and security patching around our core systems is performed regularly, and our controls are further tested by outside experts.

Description	People Risk that we are unable to attract and retain employees to ensure that the business has the appropriate capabilities to meet our strategic objectives. There is also a potential risk of industrial action as a large proportion of our field and office-based employees are represented by trade unions and works councils. Risk Requiring Judgement with elements that are Risks Requiring Standards Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee Priority: People and building capability	Asset Development, Availability and Performance Risk that failures in the development or integrity of our investments in operated and non-operated assets could compromise performance delivery. Risk Requiring Judgement Governance oversight: Board Priority: Customer satisfaction and operational excellence	Financial Processing and Reporting Risk of errors or losses arising from the processing and reporting of financial transactions for both internal and external purposes. Risk Requiring Standards Governance oversight: Board and Audit Committee Priority: Safety, compliance and conduct
Potential impacts	Failure to attract and retain key capabilities across the business could have a detrimental impact on our ability to meet our strategic objectives. The risk of industrial action in our businesses may have a potential impact on customer service levels and retention. We require the right behaviours from our leaders and employees to deliver our business strategy in line with Our Values and Our Code.	Failure to invest in the maintenance and development of our assets could result in significant safety issues or asset underperformance through unplanned outages. Operational integrity is vital to our ability to deliver projects in line with the strategic objectives. During 2018 we experienced asset outages in Spirit Energy, as reported on page 27.	The accounting landscape is evolving with the adoption of IFRS 9 and 15 in 2018. We have also evaluated the impact of IFRS 16. During the current transformation of our Finance function the potential for failures in core controls is increased. There is a risk that we fail to comply with relevant tax and regulatory requirements.
Mitigation	• Our Code and Our Values set the behavioural expectations for all employees. • We continue to evolve a clearly defined people strategy based on culture and engagement, equality and wellbeing, talent development, training and reward and recognition. • The Executive Committee has clear oversight through regular discussions of the people-related challenges inherent in our transformation programme. • We have been developing a more strategic relationship with our trade union colleagues and engage with them on restructuring and issues that could impact terms and conditions, with clear and open processes to cultivate an environment of trust and honesty. • We conduct annual Employee Engagement surveys and results are reviewed and actioned by senior leaders. • We have implemented a Career Development Office designed to promote and harness internal talent.	• Capital allocation and investment decisions are governed through the Investment Committee. • Group-wide minimum standards are applied to all assets, whether operated or non-operated. • Maintenance activity and improvement programmes are conducted across the asset base to optimise effectiveness and maximise production levels.	• The Audit Committee reviews our compliance with both our internal policies and external requirements. • During 2018 the Audit Committee has regularly reviewed progress in the finance transformation programme, including objectives around strengthening the control environment. • Our financial control framework incorporates our financial controls and management self-assessment compliance. • We undertake detailed testing and evaluation of the effectiveness of our controls in response to critical financial risks, reporting to the Finance, Risk, Assurance and Control Committee quarterly. • Following the reported issues in North America reporting at the end of 2017, we have executed a specific action plan. • The Group Tax function has a control framework, to ensure compliance with all requirements, which has been globalised to drive consistency and simplification.

	Customer Service Risk of failure to consistently provide good quality customer service through the customer lifecycle, with potential consequences being increased consumer churn and declining gross margin. Risk Requiring Judgement Governance oversight: Board Priority: Customer satisfaction and operational excellence	Business Planning, Forecasting and Performance Management Risk that plans and forecasts may not be deliverable or may fail to drive efficient and effective performance, and the risk of failures in performance reporting. Risk Requiring Judgement with elements that are Risks Requiring Standards Governance oversight: Board and Audit Committee Priority: Cash flow growth and strategic momentum	Balance Sheet Strength and Credit Position Risk that our balance sheet may not be resilient, with implications for our ability to withstand difficult market or trading conditions or financial stresses to the business. Risk Requiring Judgement Governance oversight: Board and Audit Committee Priority: Cash flow growth and strategic momentum
	The delivery of high quality customer service is central to our business strategy. With the entry of new competitors to the market, customers are increasingly likely to switch if they are unimpressed with their customer experience. Remaining at the forefront of digital developments and innovation is critical as it leads to increased choice and control for our customers. We also face risks regarding our ability to develop and price propositions competitively and profitably, which has increased recently as our business moves into new markets.	We prioritise how we allocate resources according to our business plans and forecasts. Failure to accurately plan and forecast, accounting for the evolving business environment, could result in sub-optimal decisions and failure to realise anticipated benefits.	Failure to operate within the Group's financial framework could result in risk to maintaining our target credit rating, which would impact our access to cost-effective capital and trading arrangements. Long-term financial obligations may increase in value due to factors both inside and outside of our control, such as pension schemes, resulting in additional funding required to meet our obligations.
	• Leadership teams in our front-line businesses establish accountability for specific aspects of the customer journey and assess performance daily and weekly. • We operate an environment of continuous improvement, incorporating an accredited programme (STAR), and use root cause analysis of complaint and NPS insight to continuously improve our service delivery. • Customer and Field Operations teams monitor customer service levels, ensuring enquiries are answered in a timescale and manner acceptable to the customer, complaint levels are minimised, and that customer satisfaction is reviewed at all stages of the customer journey. • Customer service agents are quality assessed for consistency with a rigorous training and performance management programme. • Performance parameters are monitored weekly for all third-party service providers involved in the customer service process.	• Annual planning processes are subject to scrutiny from the Executive Committee and the Board with respect to underlying market trends, competitive threats, organisational capability and delivery. Central contingencies are considered in response to the aggregated risk position. • Group functions have adopted standardised planning processes in support of business unit priorities, driving improved integration of plans. • The performance of each business unit is reviewed against their plan throughout the year so that any indications of plans not being delivered can be understood and any required actions can be undertaken. • Quarterly performance review meetings involving the Executive Committee enable the review of plans and forecasts, with revisions identified as necessary. • Post Investment Reviews are conducted to assess investment performance, whether benefits were fully realised and lessons that can be applied for future investment.	• We assess available resources on a regular basis. Significant committed facilities are maintained with sufficient cash held on deposit to meet fluctuations as they arise. • We model the severe, but plausible scenarios and consequences of our risks and their potential to impact our net debt position. • The current credit rating position is reported and discussed regularly by the Centrica Board. • We consider accounting assumptions impacting on our balance sheet carefully, including decommissioning and impairment. • Long-term obligation estimates are updated annually. • Counterparty exposures are restricted by setting credit limits for each counterparty, where possible with reference to published credit ratings. • Wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with Group policy.

Description	Procurement and Supplier Management Risk of failure to source effectively and to co-ordinate and collaborate with the supply chain to ensure value delivery and continuity. Risk Requiring Judgement with elements that are Risks Requiring Standards Governance oversight: Board and Safety, Health, Environment, Security and Ethics Committee Priority: Customer satisfaction and operational excellence
Potential impacts	Our business operations rely on products and services provided through third parties, including outsourced activities, infrastructure and operating responsibility for some assets. We rely on these parties to comply with contractual terms in addition to legal, regulatory and ethical business requirements. Failure to comply with Centrica's policy and standards when procuring goods and services or to manage key suppliers and contracts effectively could inhibit the ability of the business to maintain competitive products and services, or expose the Group to a range of regulatory or legal risks.
Mitigation	• We have established an end-to-end category management process to maximise value capture throughout the procurement lifecycle, from market analysis through to ongoing contract management and monitoring. • All suppliers are required to sign up to our 'Ethical Procurement' policies and procedures. • We review the ethical conduct of our suppliers, including a programme of supplier visits to provide additional assurance over practices employed. • Financial health, risk and anti-bribery and corruption due diligence and monitoring is implemented in supplier selection and contract renewal processes. • Audits are conducted in relation to third-party operation of jointly operated Exploration & Production assets.

Viability Statement

Requirement

The UK Corporate Governance Code 2016 requires the Directors to assess the prospects for the Group, taking into account the current position and significant risks, over a longer period than the 12 months required for the going concern assessment. Centrica's Directors maintain a focus on assessing the Group's long-term prospects and viability over an appropriate time period.

Assessment of prospects

Following the strategic review in 2015 we have focused on reshaping the Group and driving efficiencies to be fit for the future, including a future where our largest customer base is impacted by price caps on certain tariffs. We are confident that the measures we have taken and the efficiencies we have realised, as described on page 15 leave the Group in a strong relative competitive position.

In assessing our prospects, we consider the success in delivery of our strategy and our current business performance. The Directors have evaluated and approved the Group Annual Plan for 2019 and the strategic plan for the years beyond this. In doing so we considered carefully the risks to the delivery of the strategy and plans within the categories of Principal Risk outlined on pages 45 to 50.

The risks we consider to be of greatest significance include:

- the risk of further political or regulatory turbulence or intervention;
- external risks associated with commodity and other index movements;
- risks associated with the effectiveness of our internal control environment in relation to cyber, data protection and customer conduct; and
- risks related to our competitive positioning in a world of rapid digital innovation and increased customer choice.

We focus on the critical actions to mitigate risk so that we increase the likelihood of successfully delivering our strategy. In addition to the oversight provided by our Board and Executive Committee, our assurance teams, including Internal Audit, monitor the effectiveness of these activities to enable timely corrective action.

Our risk climate has not receded during the year, but we have embedded improved controls and assurance activities in areas including finance and performance management, information security, data protection, cyber, asset integrity, personal safety and regulatory compliance, which we can demonstrate has increased our resilience in the face of both internal and external risks. We are comfortable in the prospects of the Group in the context of our strategy combined with our focus on strong internal controls.

Assessment of viability

The Board continues to believe that three years is the appropriate timeframe to assess viability reflecting the planning horizon for the Group. Our increasing focus on the energy supply and services businesses means our most significant risks are shorter term in nature, such as the potential for regulatory change and competitive pressures creating disruption in our customer-facing markets. Similarly, the commodity markets in which we operate generally only have transparent and executable pricing available for a three-year period.

We evaluate each of our Principal Risks and aggregate the specific 'severe, but plausible' outcomes within the following scenarios:

- incidents and events, such as further regulatory intervention with the potential to create significant churn that materially reduces our customer numbers, a rapid decline in gross margin through failing to deliver our plan and/or have the potential for material fines, such as those associated with data loss under GDPR;
- significant disruption to our asset-based businesses, including a process safety or asset integrity incident and interruptions through outages of up to two years in our production schedules in Spirit Energy;
- external events beyond our control including movements in commodity prices ranging from 25% to 75%; and
- one-off events including a significant business disruption following a cyber incident or major weather event.

In the current year we have considered also the range of potential consequences resulting from Brexit as described on page 44. The impact of the combined scenarios is compared to our net debt headroom, which is forecast to be in the region of £3 billion to £3.5 billion throughout the period modelled without the need for additional debt. For those risks where the outcome is not binary we perform sensitivity analysis. The most significant of these risks relate to customer churn and commodity price movements. Finally, we model the indirect consequences of each of these issues in relation to the potential for downgrades in our credit rating.

None of the individual scenarios result in the requirement for further mitigation. However, should an extreme combination of these severe but plausible events arise we are able to identify mitigating actions including a significant reduction in operating costs, potential business disposals, reducing technology-related expenditure, reducing capital expenditure in Spirit Energy, reductions in dividend payments, delaying a planned share buyback or the redemption of the hybrid bond and further portfolio adjustments.

Key assumptions embedded in these assessments include:

- the use of known consequences, historical evidence and the evaluation of similar events observed in the market to calculate the potential impact;
- target customer numbers, commodity price curves, efficiency programme targets and the shape of the future portfolio;
- ongoing access to our existing sources of funding, including undrawn credit facilities of £3.9 billion as described in note 24(b) to the consolidated Financial Statements in the Annual Report and Accounts 2018, which currently expire between April 2021 and October 2021, with renewal of £4.2 billion of revolving credit facilities expected to occur by the end of February; and
- no further changes in our capital structures such as any new debt funding.

Conclusion

The Directors have considered all the above factors in their assessment of viability over the next three years. We have performed sensitivity analysis which enables the Directors to confirm that they have a reasonable expectation that no individual scenario, or combination of these scenarios, could result in the inability of the Group to continue to operate and meet its liabilities, as they fall due, over a period of at least three years.

Our Stakeholder Engagement

Engaging with stakeholders is fundamental to our business success. By listening to and collaborating with stakeholders, we can grow our business and deliver for our customers and society over the long term.



Customers

Our success depends on our ability to understand what our residential and business customers want and how they feel. By seeking their views and putting ourselves in their shoes, we can focus our business decisions on satisfying the changing needs of our customers – from providing new products that fill a gap in the market to delivering system improvements that enable a better service. We seek feedback in several ways including forums, market research and product testing as well as via complaints channels and surveys.

Customer insight

Employees at all levels of the business, including senior executives, have the opportunity to immerse themselves in our customers' world and seek feedback to help us target improvements. This can involve regularly meeting with customers on a one-to-one basis in their homes and businesses or in a moderated group. We also analyse customer experience surveys to identify challenges and develop ways we can improve key points in the customer journey.

Hive Link

Throughout every stage of Hive Link's development, we continuously work with focus groups and individual triallists alongside Carers UK, to carefully create a service that meets the social needs of an ageing population by providing families and friends with peace of mind while supporting loved ones to stay living in their homes for longer. Driven by artificial intelligence and 24/7 notifications, feedback from the trial has helped us develop features that work effectively together which include notifications if a change in usual patterns of behaviour is detected, an activity log to see real-time activity and the ability to set up a Circle in the Hive app to share care among family and friends.

 **Read more in the Business Review on**
Pages 20 to 25

“We are great fans of repurposing everyday lifestyle technology to support carers, which is why Hive Link is so exciting. It provides reassurance and peace of mind on both sides.”

Madeleine Starr

Director of Business Development and Innovation, Carers UK



Colleagues

We want to be an employer of choice. Central to this is providing a workplace where everyone feels motivated and able to deliver for our customers. Listening to our people and taking action to ensure we have the right culture, policies and practices in place is key. Our people can share their thoughts through surveys, performance reviews, consultations, Yammer and our independent Speak Up helpline. Frequently raised issues include leadership, inclusion, remuneration, training and improving our service offer to customers.

#WeAreListening

Our 2017 employee engagement survey told us that our people wanted more interaction with leaders and to better understand the Company's aspirations. In response, leaders held over 100 in-person and virtual sessions to hear what was on our people's minds, to discuss our strategy and explore how we can grow Centrica together. The sessions generated over 40,000 comments online and provided insight into how to improve our communications, fill jobs internally and develop our people.

Employee networks

We want everyone at Centrica to be themselves and flourish. Our employee networks for carers, women, disability, ethnicity, veterans and LGBT+, provide us with a body we can engage with to help ensure our people can thrive. In 2018 for example, we collaborated with our LGBT+ network to embed more inclusive language across our policies and worked with our women's network to improve our diversity action plans.

 **Read more about Building the workforce of the future on**
Pages 62 to 63

 **Read more about Workforce engagement on**
Page 76



Investors & shareholders

Shareholders provide funds that help us run and grow our business. In return, they want to know that we are a well run company, able to give them sustainable returns on their investment. We regularly meet with large shareholders, attend conferences and respond to requests for further information in addition to our ongoing reporting cycle. Topics discussed span our financial, operational and responsible business activities. Engagement helps investors understand our performance and raise any concerns, supporting our future decision-making.

Annual General Meeting (AGM)

At our AGM, all shareholders can hear about our performance and put questions to the Board of Directors. Members of the Board, Investor Relations and customer service are available before and after the presentation, to speak with shareholders.

Climate Action 100+

At the AGM, representatives of the Climate Action 100+, a group representing investors who collectively manage over USD\$30 trillion in assets, asked questions about the action we are taking to tackle climate change. We wanted to have a deeper dialogue so we subsequently set up a roundtable meeting where Iain Conn, Group Chief Executive, and Jim Rushen, Group Head of Environment, shared our long-term vision for enabling customers and the energy system to decarbonise. Engagement enhanced understanding of the role we can play to help shape a low carbon future and has influenced how we will disclose our future progress.



Read more about Shareholder engagement on
Pages 76 to 77



Read more about Enabling all our customers to use energy more sustainably on
Pages 60 to 61

Government & regulators

We actively engage governments, regulators and legislators, either directly or through trade associations. We respond to issues of concern and provide expertise to support policy development around topics such as Brexit and market competition as well as employment and environmental practices. These open conversations and consultations enable us to contribute to government priorities and improve understanding of our business, to ensure the energy system functions in the interests of customers over the immediate and longer term.

Retail choice

Alongside trade associations and large businesses, we engaged the legislature and regulators of California, to make the energy market more competitive and improve consumer choice in North America. Our engagement supported the passage of Senate Bill 237 into law which in phase one, raised the cap on the volume of energy that large energy users can buy directly from competitive energy providers. We aim to build on this progress, with phase two investigating further expansion.

Industry insight

We want the countries where we operate to have the right building blocks in place to respond to the rapidly changing world of energy. We engaged with the UK Government on our Powering Britain report series which illustrates the economic and environmental benefits distributed energy solutions can create if adopted by key sectors. Our findings support the Government's Clean Growth Strategy and we hope it will promote positive policy development.



Read more in Political and Regulatory Intervention on
Page 45

“We gained a better understanding of senior management’s perspective on the challenges presented by climate change and how this, together with other trends such as digitisation and increasing consumer power, is directly influencing company strategy. We look forward to continuing our dialogue on Centrica’s long-term ambition for decarbonisation of heat and power, scenario analysis and shorter-term targets.”

Bruce Duguid and Andy Jones

Hermes ESOS, Lead investor for Centrica under Climate Action 100+



Suppliers

Reliable and ethical supply chains are essential for serving our customers and supporting strong communities. We take great care to treat our suppliers fairly and collaborate to drive high standards in order to maximise opportunities and minimise risks across our supply chain. We interact with our suppliers in a variety of ways including tender and bid processes, surveys, site inspections and events. These interactions cover a broad range of topics such as cost efficiencies and ways of working as well as environmental and modern slavery compliance.

Risk management

We assess suppliers on their social, ethical and environmental standards. If they receive a medium or high-risk rating, we always consider ways we can work together to raise standards and reduce risk. In 2018, we conducted 14 on-the-ground ethical site inspections in a range of countries including Sri Lanka and China, to gain a stronger insight into potential issues and we worked with 12 suppliers to build tailored action plans to deliver necessary improvements.

Responsible Sourcing Council (RSC)

We work with third parties to drive responsible procurement practices forward. We attended all RSC events in 2018 which has enabled us to benchmark activities and further embed best practice. We hosted the first RSC meeting of 2019 to share our responsible procurement achievements so that others could learn from our experience as well as collaborate with us to find solutions to some of our challenges.

 **Read more about Procurement and Supplier Management on**
Page 50

“The continued support of Bord Gáis Energy will mean Focus Ireland can prevent more families from becoming homeless in the first place and help to ensure that others already impacted can exit homelessness.”

Pat Denningan
CEO, Focus Ireland



Communities & NGOs

It is important that we make a positive contribution to our communities and join forces to overcome major challenges. To strengthen our impact, we share our knowledge and invite input from a range of stakeholders including NGOs and charities as well as communities more broadly, through methods such as industry working groups, consultations, global partnerships and community investment. The focus of our engagement can vary considerably from environmental protection to tackling enduring social issues.

Cornwall Local Energy Market

In 2018, we continued to work with a community of businesses, households and renewable generators in the UK to test a more flexible energy system that balances demand on the grid, stimulates the growth of renewables and creates opportunities to reduce energy bills. By engaging the local community on the ambitions of this project, we will be able to fully roll-out the trial and technologies such as solar and battery storage to around 150 homes and businesses in 2019.

Focus Ireland

Over the last five years, Bord Gáis Energy has worked with Focus Ireland to help prevent family homelessness, build awareness of the growing homeless crisis nationally and demonstrate the need for further government support. During 2018, we ran a Prevention Campaign to identify those at risk of homelessness, funded advisers and supported homeless families in emergency accommodation. For our efforts, we were awarded the 2018 Corporate Philanthropist of the Year Award by The Community Foundation for Ireland.

 **Read more about Creating stronger communities on**
Pages 64 to 65

Delivering our Responsible Business Ambitions

Our Responsible Business Ambitions will help us realise our strategy to deliver for the changing needs of our customers and be a trusted corporate citizen, an employer of choice and a 21st century energy and services company, driving long-term shareholder value.

The world of energy is evolving, the social and environmental climate we operate in is under pressure and our customers' needs are changing every day. In this rapidly shifting landscape, energy remains at the centre of how we run our lives, and we are determined to use our capabilities to make a positive impact.

Using the UN Sustainable Development Goals as a guide, we have mapped the challenges facing society against our business capabilities, to better understand how we can make the greatest difference. Our biggest responsibilities are to innovate continuously in ways that make our customers' lives easier, to tackle climate change, to create a skilled and inclusive workforce that is capable of driving our business forward and to support our local communities.

That is why in 2019 we are launching our 2030 Responsible Business Ambitions – a set of 15 goals that contribute to a more sustainable world. We will focus on delivering for our customers, enabling all our customers to use energy more sustainably and building the workforce of the future – all of which will help us to create stronger communities.

Our Ambitions are underpinned by our Responsible Business Foundations which ensure we have strong underlying policies, processes and practices in place to get the basics right and act with integrity.

We are confident that this approach will maximise the positive impact we have in society and put us in the best position to succeed as a business now, through the energy transition and beyond.

The subsequent pages share the progress we have made across our focus areas during 2018 and we look forward to reporting in full against our new goals next year.



Non-financial reporting statement

In line with the Non-Financial Reporting Directive, we have set out where the relevant information we need to report against can be found in the Annual Review.

- Business Model (pages 16 to 17)
- Anti-Bribery and Corruption (page 65)
- Whistleblowing (page 65)
- Human rights (page 65)
- Social matters (pages 58 to 59 and 64 to 65)
- Environmental protection (pages 54 and 60 to 61)
- Employees (pages 53, 62 to 63 and 76)

Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 41 to 51. See the Annual Report and Accounts 2018 for wider disclosure.



Explore more about our Responsible Business Ambitions at centrica.com/responsibility



View Our Code, policies and standards at centrica.com/ourcode



Read our full set of Key Performance Indicators on Pages 18 to 19

Our 2030 Responsible Business Ambitions

Helping you run your world in ever more sustainable ways

Our ambition for Customers

Delivering for our customers

Through the latest innovations and a commitment to service, we're making our customers' lives easier



Deliver solutions to make our customers' lives easier

- Help customers understand and manage their energy better*
- Give customers peace of mind through tailored propositions and connected technologies
- Develop solutions to help our customers run their worlds

Satisfy our customers with excellent service

- Make it simpler for people to deal with us in ways that work for them

Our ambition for Climate change

Enabling all our customers to use energy more sustainably

We're helping to shape a low carbon future by enabling our customers, the energy system and our business to use energy more sustainably



Help our customers reduce emissions in line with Paris goals

- Help our customers reduce emissions by 25%, by direct (3%) and indirect action*

Enable a decarbonised energy system

- Deliver 7GW of flexible, distributed and low carbon technologies as well as provide system access and optimisation services

Reduce our own emissions in line with Paris goals

- Demonstrate we are on track with Paris goals and develop a path to net zero by 2050

Our ambition for Colleagues

Building the workforce of the future

We're developing vital skills and a more inclusive workforce to ensure we deliver for our customers



Empower people with future skills

- Inspire and develop 100,000 people with essential STEM skills

Build a more inclusive workplace

- Attract and develop more women into STEM with 40% of STEM recruits to be female*
- Aspire for senior leadership to reflect the full diversity of our labour markets
- Help 1 million carers stay in or return to work via active promotion of carer-positive policies

Our ambition for Communities

Creating stronger communities

By offering our knowledge and expertise, we're empowering communities to take control of their energy and tackle pressing social issues

Apply new energy technologies to drive positive change

- Deliver £5 billion of value for communities through new and distributed energy technologies*
- Deliver £300 million in energy efficiency savings to public and essential services

Collaborate across sectors to improve local communities

- Encourage our people to share their skills by volunteering over 100,000 days
- Deliver 2,500 skills development opportunities for young people not in education or employment



Our Responsible Business Foundations

Our Ambitions are underpinned by strong foundations that ensure our business operates with integrity

Delivering for our customers

Through the latest innovations and a commitment to service, we are making our customers' lives easier

Deliver solutions to make our customers' lives easier

We aim to deliver innovative products and services that provide customers with peace of mind and save them time and money. Cumulatively, we have sold nearly three million Hive connected home products which give customers greater control with just a tap on the app – from smart thermostats, plugs, lights and cameras, to contact and motion sensors. This has led to 82% of customers saying Hive has given them a simpler way of controlling their home. In the UK, Hive products have been accredited by security experts and the police as effective tools for preventing crime.

In 2019, we took our first steps into connected care with the launch of Hive Link. Developed in partnership with Carers UK, Hive Link helps carers check that their loved ones are getting on with their day as usual if they cannot be there with them. It also provides reassurance to the loved one that someone is there if needed. This is made possible through Hive Link's ever-learning algorithm that continually interprets data captured through Hive sensors and plugs placed carefully around the home. These trigger an alert if there is an unusual change from normal patterns of behaviour, such as the front door being left open for longer than normal. This increased level of awareness gives carers peace of mind and helps them enjoy conversations with their loved ones that are less about checking up, and more about having a normal chat. Since launching, Hive Link has won an award for innovation in the Tech for a Better World category at the Consumer Electronics Show, the world's largest consumer technology event.

Our leadership of the UK's smart meter roll-out is helping homes and businesses to run more smoothly by providing accurate bills and insight into how much energy is being used and its costs in real-time. To date, we have installed nearly seven million smart meters.

Another way we are helping customers improve the way they manage their energy is with our Fixed Energy Plus offer for businesses in North America. The offer gives large energy consumers access to real-time usage and alerts them when there is a peak load on the grid, so that they can proactively lower their usage and be rewarded with lower capacity costs.

Distributed energy solutions are also making it possible for businesses to operate and optimise their energy like never before. In 2018, we expanded our offer from Centrica Business Solutions to the Republic of Ireland, Netherlands and Hungary, giving more customers the opportunity to improve performance, strengthen resilience and create opportunities for growth by using distributed energy technologies. To build resilience further, we are looking to offer enhanced cyber-security solutions based on capabilities acquired through our Centrica Innovations investment in Indegy, which detects anomalies using advanced machine learning and alerts businesses to unexpected behaviour or malicious activity.



£100m

Investment in our Centrica Innovations fund to accelerate new technologies and ideas that transform our customers' lives



Nav Dhinsa

@NaavKD You know you're old when you get excited by the new @HiveHomeUK thermostat that was fitted this morning!

Being able to control my heating and hot water on my phone is what was missing in my life.

23 Oct 2018



Kerry Thompson

@kerrymThompson If it wasn't for the amazing quality of @HiveHomeUK camera & detection we never would have known someone was in our house without permission! When travelling home from the airport... so thank you Hive 🙌❤️

19 Oct 2018

Satisfy our customers with excellent service

We are investing in digital capabilities that enhance our service and enable customers to get in touch with us when and how they want. This includes creating the next generation British Gas mobile app and web platform as well as deploying intelligent voice recognition and artificial intelligence in call centres to help us manage enquiries more efficiently. We have also upgraded our webchat which supported an increase in digital interactions from homes and businesses that totalled more than 2 million in the UK alone during 2018. Meanwhile, North America Business enhanced their web enrolment experience while the Hive app was strengthened with 'Live Chat' customer service capabilities. Steps like these will, over time, help to improve customer satisfaction and has already contributed to our aggregated Net Promoter Score rising by 0.06 points to +10.0†.

Technology helps to create a better world for people with disabilities. Increased use of webchat has made it easier for customers who struggle using a phone to contact us. We also supported the development of a smart meter accessible in-home display which improves access to energy insights for customers with visual impairments and is due to launch in 2019.

† Included in PwC's limited assurance engagement.
See centrica.com/assurance for more details.



 **Read more in the Business Review on**
Pages 20 to 24



Our Responsible Business Foundations

In addition to our ambition areas, we want to ensure that we care for our customers whenever they need a helping hand. In 2018, we trained our call centre advisers in how to serve our customers better and we continued to roll-out complaints programmes such as Right First Time, to ensure we resolve issues more quickly. Moreover, improvements such as our online automated claims system in Home Warranty of America, has helped claims progress more smoothly which has reduced complaints and cut calls per claim by 25%. With this focus, our aggregated complaints per 100,000 customers fell by 8% to 3,453. In 2018, we helped around 826,000 vulnerable customer households. This included 629,500 customers via the UK's Warm Home Discount scheme and nearly 2,700 customers through North America's Neighbor-to-Neighbor bill assistance programme. An additional 29,000 customers and non-customers were supported with energy and debt advice through the British Gas Energy Trust.

 **Read more about how we are Here**
for you when you need us most on
Pages 30 to 31

“I provide assistance to our most vulnerable customers. I'm here to listen, no matter what the situation and I strive to find the individual journey of support that is needed for each customer, every time.”

Rachael Steel
UK Home Debt Customer Care Agent

Enabling all our customers to use energy more sustainably

We are helping to shape a low carbon future by enabling our customers, the energy system and our business to use energy more sustainably

Help our customers reduce emissions

With over 90% of our carbon emissions arising from customer consumption, the greatest contribution we can make in tackling climate change is to provide them with more sustainable ways to manage their energy. Since 2008, our products and services have enabled customers to save nearly 35mtCO₂e which is equivalent to the annual emissions of around 11 million UK homes.

In 2018 for example, we:

- sold over 300,000 Hive smart thermostats that help customers manage their heating and hot water better, the benefit of which was recognised by the US Environmental Protection Agency which awarded the product an Energy Star rating for enabling customers to protect the environment and save money;
- became the first major UK energy supplier to achieve accreditation by the Carbon Trust for our renewable tariff for business customers; and
- acquired Vista Solar, a leading Californian solar engineering, procurement and construction company to strengthen our ability to deliver solar as part of our distributed energy offer.

Enable a decarbonised energy system

We are helping create a cleaner energy system by pioneering end-to-end solutions that enhance grid flexibility, support renewables and reduce reliance on fossil fuels.

Towards this in 2018, we:

- continued to grow the infrastructure for a low carbon transport system, having installed around 17,000 electric vehicle charge points since 2013 and invested in start-up, Driivz, to develop end-to-end solutions for charging (see page 29);
- invested in the development of a Linear Generator that offers more affordable, flexible and clean onsite generation via Californian start-up, EtaGen;
- strengthened the route-to-market for renewables by balancing and trading power production via wind farm agreements across Europe including 235MW in Sweden and 315MW in Italy; and
- progressed our £180 million investment in flexible generation and storage facilities by completing construction at one of the largest battery storage facilities in Europe as well as at two new fast response power plants.

“Centrica Business Solutions has helped us reduce energy costs and become more energy efficient. Implementing these energy saving solutions has not only allowed us to reduce our carbon emissions, it has also helped us define a long-term energy management strategy.”

Paul Wilkinson

Senior Projects Manager, Durham County Council



**Powering sustainability
across key sectors**

11%

Potential annual carbon footprint saving if just 50% of the UK's Industry, Healthcare and Hospitality & Leisure sectors took up distributed energy technologies



Read our report in full at
centrica.com/poweringsustainability



Read more about being A trusted energy
partner for business customers on
Pages 32 to 33

Reduce our own emissions

We now produce over 80% less carbon than we did a decade ago. This is the result of our strategic decision to move away from being a traditional utility that operates generation assets, to become a customer-facing energy supply and services company. This transformation is reflected in our 2018 total carbon emissions which decreased by 58% while the carbon intensity of our Central Power Generation also declined by 58% to 53gCO₂/kWh.

Our internal carbon footprint reduced by 10% during 2018. This brings our overall reduction to 26% which means we have met our 20% carbon reduction target for 2015-25 early. The decline was achieved through planned low carbon fleet and property initiatives, alongside reductions arising from the restructuring of our business. We have extended our target to reduce emissions by 35% by 2025.

Our Responsible Business Foundations

In addition to cutting our carbon emissions, we also work hard to monitor, manage and reduce our wider environmental impact in areas such as water use and waste. While we do not undertake water-intensive activities or operate in water-stressed zones, we constantly seek to minimise our use of this vital resource. Our total water use and waste generated decreased significantly in 2018, reflecting our strategic shift away from operating large-scale energy assets.



Read more about our wider environmental performance at centrica.com/datacentre

Our total carbon emissions

Total carbon emissions

2018 1,737,122tCO₂e†
2017 4,103,348tCO₂e

Scope 1

2018 1,698,388tCO₂e†
2017 4,044,754tCO₂e

Scope 2

2018 38,734tCO₂e†
2017 58,594tCO₂e

Total carbon intensity (by revenue)

2018 58tCO₂e/£m
2017 146tCO₂e/£m

We report on an equity basis with practices drawn from WRI/WBCSD Greenhouse Gas Protocol, IPIECA'S Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions and Defra's Environmental Reporting Guidelines.

† Included in PwC's limited assurance engagement. See centrica.com/assurance for more details.



Task Force for Climate-related Financial Disclosures (TCFD)

We are committed to transparent reporting and continuously improving our external disclosures, including further alignment with the recommendations of the TCFD. Our strategy is based on a world which is moving towards a lower carbon future and our governance structure ensures Board oversight of climate-related matters. We have already assessed our strategy against the risks and opportunities of decarbonisation scenarios in the UK and believe we are well placed to succeed in the energy transition. We intend to further strengthen the positive impact we can have on making energy more sustainable by expanding our assessment of decarbonisation scenarios, setting targets agreed by the Board and through deeper integration in our business processes.



Explore more about our TCFD journey at centrica.com/TCFD



Read more about engagement with Investors & shareholders on Page 54

We are a world leader for disclosure and action on tackling climate change



Building the workforce of the future

We are developing vital skills and a more inclusive workforce to ensure we deliver for our customers



Empower people with future skills

We are building the workforce of the future by developing essential skills that enable our people to thrive and plug the growing shortage of STEM (Science, Technology, Engineering and Maths) skills in our sector. In the first six months since we launched our Career Development Hub and specialist Learning Academies in 2018, we have seen over 13,000 of our people enhance their capabilities. A diverse talent pipeline is also being built through the expansion of our world-class engineering apprenticeships into new areas such as leadership, management and digital. In addition, we grew the skills of 500 young people on our graduate and work experience programmes.

Build a more inclusive workplace

Having a vibrant and diverse workforce that reflects the world around us is key to understanding and satisfying the changing needs of our customers. That is why we are passionate about creating an inclusive place to work where everyone can be themselves and build a successful and fulfilling career. This will enable us to attract, develop and retain our talented workforce.

In 2018, we:

- inspired the next generation of young girls to explore a career in STEM by working with the Royal Academy of Engineering to showcase strong female role models that demonstrate how exciting a career in energy can be;
- strengthened recruitment processes to attract more diverse candidates – from challenging recruiters to draw up gender-balanced shortlists to undergoing unconscious bias training; and
- progressed our carer-positive culture by continuing to offer a generous paid leave allowance to carry out carer responsibilities while also providing a vital source of support via our 1,000-strong Carers Network in the UK and launching a new disability and caregiver employee network in North America.

We received recognition for our diversity and inclusion efforts in 2018. This included Business in the Community's Best Employers for Race Award and our Group Chief Executive being ranked as a Top 30 Ally Executive in the Financial Times' OUTstanding 50 Ally Executives 2018 List.

Our diversity

Our business and sector traditionally lacks diversity. But we are confident that the action we are taking to improve inclusion will, over time, help ensure our workforce reflects our labour markets.

Our gender breakdown

	2018 ⁽¹⁾				2017			
	Female		Male		Female		Male	
	Headcount	Percentage	Headcount	Percentage	Headcount	Percentage	Headcount	Percentage
Board of Directors	2	17	10	83	3	25	9	75
Senior management	277	28	703	72	278	28	719	72
All employees	8,723	29	21,359	71	9,246	29	22,349	71

(1) Gender of three employees is unknown.

Our ethnic minority breakdown

Our breakdown is based on employees who have voluntarily declared that they are from a Black, Asian, Mixed/Multiple ethnic or other ethnic group.

	2018 ⁽¹⁾		2017 ⁽²⁾	
	Headcount	Percentage	Headcount	Percentage
Board of Directors	0	0	0	0
Senior management	86	9	77	9
All employees	3,683	12	3,916	12

(1) Of this, 65% of employees disclosed their ethnicity.

(2) Of this, 62% of employees disclosed their ethnicity.

Headcount as at 31 December 2018 differs from numbers referenced elsewhere in the Annual Report and Accounts 2018 due to different methodologies. To accurately reflect the full diversity of our workforce, we use overall headcount numbers rather than a headcount based on their full-time equivalent.



Read more about improving diversity
in Board diversity on
Page 74

Our Responsible Business Foundations

While we focus on building the workforce of the future, it's essential that we provide an environment where our people feel safe, engaged and rewarded. As part of this, we aspire to create an environment where an incident-free workplace is possible. In 2018, our process safety incident frequency rate (Tier 1 and 2) per 200,000 hours worked improved by 57% to 0.06%[†]. However, we experienced one[†] significant process safety event (Tier 1) compared to zero in 2017. This involved an uncontrolled release of gas but resulted in no injuries. Alongside the robust initiatives we have in place to continuously improve physical health, we also strengthened our capabilities to support mental wellbeing in 2018. This can be demonstrated with the creation of our 300-strong network of Mental Health First Aiders.

Having an engaged workforce is crucial. Following feedback from our employee engagement survey in 2017, we implemented initiatives to address issues raised which has contributed to our engagement score improving by 3% to 55%[†] favourable.

We have robust processes in place to uphold equal pay and reward our people fairly which includes paying at least the Living Wage in the UK and reducing our gender pay gap. Rather than our gender pay gap being due to unequal pay, it is driven by more men working in higher-paid, traditionally male-dominated technical roles such as engineering. While we are actively taking steps to close our gender pay gap through our inclusion activities (see left), we recognise that progress will occur over the long term, with annual performance likely to fluctuate due to changes in the composition of our workforce and business performance. In 2018, our mean gender pay gap increased by 3% to 15% while our median gender pay gap rose by 1% to 31%.

[†] Included in PwC's limited assurance engagement.
See centrica.com/assurance for more details.

 [Read more about Workforce engagement on Page 76](#)

 [Explore our Gender Pay Statement at centrica.com/genderpay](https://centrica.com/genderpay)

“I’ve got a PhD in thermostats and usability and that’s led me to a fantastic career. I’ve seen women leading teams, women leading projects and now I’m doing it myself and hopefully for the other young girls in the team, I’m a bit of a role model.”

Nicola Combe
Global Product Lead, Centrica Hive



Gender Pay Gap Reporting of the Year

Our transparent disclosure and commitment to reduce the gender pay gap was recognised at the 2018 ICSA Awards which celebrates excellence in governance and annual reporting

57%

Improvement in process safety incident frequency rate (Tier 1 and 2)

300

Number of employee Mental Health First Aiders

Creating stronger communities

By offering our knowledge and expertise, we are empowering communities to take control of their energy and tackle pressing social issues

Apply new energy technologies to drive positive change

We are building future energy systems that give communities the power to take control of their energy. This increases their energy resilience, reduces their environmental impact and unlocks financial savings that can be used to build a more productive and prosperous economy that benefits everyone.

Towards this in 2018, we:

- continued to test how flexible demand, generation and storage can support the grid during peak times, help stimulate the growth of renewables and create opportunities to reduce energy bills as part of the UK's Cornwall Local Energy Market;
- joined forces with machine learning start-up, Verv, on the next phase of a community energy trial in Hackney that aims to explore how peer-to-peer trading using blockchain technology can reduce customer bills in the UK;
- rolled out blockchain technology at North America's first customisable energy market for businesses in Texas, allowing them to better manage their energy demand;
- supported Bridgeport Microgrid in Connecticut, North America, to provide flexible but dependable clean power in times of natural disaster or when the main electrical grid fails; and
- helped create public sector savings with distributed energy technologies at St George's Hospital in Tooting, UK, which officially opened in 2018 following a major overhaul of its energy centre and is projected to save them £1 million each year.

“By saving £1 million annually for the next 15 years, the contract will go a long way to help us maximise the resources we can put into patient care. It also massively cuts our carbon emissions and improves our overall sustainability.”

Kevin Howell

Director of Estates & Facilities,
St George's University Hospitals NHS Foundation Trust

If just 50% of the Industry, Healthcare and Hospitality & Leisure sectors took up distributed energy solutions, the potential economic benefits to the UK would be:

£18.5bn

Gross value added to the economy

1.5%

Boost to economic output

£980m

Annual energy bill savings across the three sectors



Read our report in full at
centrica.com/economicfuture



Collaborate across sectors to improve local communities

We are tackling issues that our communities and business care passionately about. Through the Movement to Work scheme, we gave over 350 young, unemployed people the opportunity to gain workplace skills in 2018. Nearly 1,450 people have benefited from the scheme over the last five years and we have committed to provide a further 350 places in 2019. Volunteering is also a great way for our people to share their skills with communities as well as develop new ones. During 2018, our people volunteered over 39,100 hours which was 32% lower than 2017, and was partly due to a transition in how our people log their volunteering hours.

Our flagship partnerships

We are supporting our communities through volunteering and fundraising with partners.

4.2m

Lives of children and their families improved through support of local hospitals in North America



(2014–Ongoing)

5,200

Families in Ireland experiencing homelessness were supported

FOCUS Ireland

(2015–Ongoing)

£1m

Employee fundraising target established to help make life better for carers



(2018–2021)

In addition, we relaunched our Speak Up helpline which allows for the confidential reporting of potential violations of laws, regulations and company policies, to help ensure we are a well run and successful business.

We want to share our success with our communities and in 2018, we invested £149 million in mandatory, voluntary and charitable contributions. This includes our support for vulnerable customers (see page 59) as well as our flagship charity partnerships (see left). An additional £215 million was provided to governments in taxes which provide vital funds for public services.

We also help our communities to flourish by supporting around 30,000 suppliers and by using our purchasing power as a force for good. In 2018, we assessed a further 69 suppliers on their social, ethical and environmental standards, resulting in a sustainability score of 54 (low risk). This is better than the multi-industry average of 42 (medium risk). If suppliers receive a medium or high-risk rating, we consider appropriate next steps which may involve working together to raise standards, conducting an on-the-ground ethical site inspection to better understand their business, or terminating our relationship and reporting the abuse if they continue to fall short of our expectations.



Explore more about Our Values and Our Code at centrica.com/ourcode



Read more about our Modern Slavery Statement at centrica.com/modernslavery



Read more about Our View on Taxation on Page 40

Our Responsible Business Foundations

Alongside our ambition to create stronger communities, we also aim to protect and enhance the communities where we operate as part of our commitment to being a trusted corporate citizen.

Our Code and Our Values ensure that we operate in a way that is beneficial to society by setting out the high standards and behaviours we expect from everyone who works for us or with us. For example, Our Code helps to guard against bribery and corruption by providing clear guidance that includes condemning payments we feel to be improper and taking extra care when offering or receiving gifts and hospitality. It also sets out our commitment to respect and uphold human rights. This can be further demonstrated through our response to the UK's Modern Slavery Act, where we have put in place a detailed action plan to monitor and reduce the risk of forced or compulsory labour in our business and supply chain through initiatives such as training and on-the-ground ethical site inspections. It is important that our people embrace the spirit of Our Code and in 2018, 96% of our people completed training and certified that they would uphold it.

The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved by the Board and signed on its behalf by:

Grant Dawson
Group General Counsel
& Company Secretary
20 February 2019

Summary Directors' and Corporate Governance Report



Rick Haythornthwaite
Chairman

“At Centrica we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business.”

Dear Shareholder

I am once again pleased to confirm that your company has fully complied with the principles and provisions of the 2016 UK Corporate Governance Code (the 2016 Code) throughout the year. The pages that follow will illustrate how your Board ensures that Centrica has effective corporate governance in place to support the creation of long-term value for shareholders and for stakeholders more generally.

Corporate governance

At Centrica we recognise the importance of effective corporate governance in supporting the long-term success and sustainability of our business. Sound corporate governance enables clear and consistent delegation of authority from the Board to senior management and beyond in order to promote robust, informed and transparent decision-making. It also promotes effective stewardship to ensure the delivery of strategic objectives and sustainable success. We strive to maintain a robust and effective governance framework which supports the application and execution of our strategy and remains consistent with Our Values and behaviours. The Board sets the right tone for the organisation including the right culture, values and behaviours that are intended to protect and promote the long-term success of the business. There has been considerable focus on corporate governance recently and we expect this to continue.

Disappointingly, well publicised failures in corporate culture, governance and performance, again dominate the media headlines. Businesses should be held to account for these failings, but it is important to recognise that these failures are few in number. Considerable progress has been made in improving standards of corporate governance across the business sector in recent years.

Centrica engaged with the Financial Reporting Council's (FRC) public consultation in 2017 and 2018 on the proposed revisions to the 2016 Code. The Board welcomes the new reporting legislation around stakeholder disclosure and executive remuneration and the Corporate Governance Code revisions that have been implemented. Many of the initiatives being promoted by the FRC, including those relating to corporate culture and values, diversity and inclusion, strengthening the stakeholder voice and adopting and operating appropriate remuneration structures, are areas of focus for the Board in 2019 and beyond. The Directors' and Corporate Governance Report which follows explains how we are approaching these important issues.

Board refreshment and succession planning

The Board and the Nominations Committee devoted considerable time to succession planning during the year. As part of a structured and continuous process of Board refreshment, 2018 saw a number of changes to the Board. Centrica embraces the importance of diversity and inclusion in all Board recruitment and supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity. Despite our intention to appoint females to the Board and the search criteria being sufficiently wide so as to encourage a diverse range of candidates, no females were appointed to the Board during the year. However, we announced in January 2019 the appointment of Pam Kaur as a Non-Executive Director. Pam replaces Lesley Knox who stepped down from the Board at the end of 2017.

Jeff Bell, Group Chief Financial Officer, stood down from the Board in October and in July, Mark Hanafin, Chief Executive, Centrica Business, announced his retirement. I am pleased to welcome their successors, Chris O'Shea and Richard Hookway, who were appointed to the Board in November and December, respectively. In December, we announced that Mark Hodges, Chief Executive, Centrica Consumer would be stepping down from the Board in February 2019. I am delighted to welcome his successor, Sarwjit Sambhi, an internal candidate, to the Board in March 2019. I would like to thank Jeff, Mark and Mark for their significant contributions to Centrica.

During the year, a search process was initiated for a Non-Executive Director to succeed Margherita Della Valle, Chairman of the Audit Committee, who will step down from the Board in 2019 having completed her nine-year term in office. I am pleased to report that Kevin O'Byrne will join the Board in May 2019 and will replace Margherita as Chairman of the Audit Committee.

Having served as a member of the Remuneration Committee since 1 January 2011, Margherita stepped down from the Committee with effect from 17 October 2018 and was succeeded by Stephen Hester.

In May 2018 I announced my intention to step down from the Board during the course of the next 12 months after serving approximately six years. I am delighted that, following a robust process led by Stephen Hester, our Senior Independent Director, I will be succeeded by Charles Berry who joined our Board in October. Charles's breadth of international energy and engineering knowledge and a long track record of successful leadership of businesses across industrial, minerals, telecommunications and retail sectors over the last 20 years, stand him in an excellent position to succeed me and to lead the Centrica Board. Charles also has extensive experience in both the UK and the US of the regulatory framework of the energy and service markets. I would like to thank Stephen for his leadership of the process to identify and appoint Charles to the role and I wish Charles and the Centrica Board every success.

Board effectiveness review

The Board carries out an annual evaluation of its effectiveness. Having undertaken internal evaluations in the previous two years and in accordance with the 2016 Code, an externally facilitated evaluation was completed in 2017/18. The results of this review are set out on page 75.

Conclusion

The Directors' and Corporate Governance Report in the Annual Report and Accounts 2018 has been prepared in order to provide shareholders with a comprehensive understanding of Centrica's governance framework under the 2016 Code, the UK Listing Rules and the Disclosure and Transparency Guidance. I hope that you find the Report informative and engaging.

Rick Haythornthwaite

Chairman

20 February 2019

Governance at a glance

The Board is responsible for promoting the overall success of the Company. In doing so, it delegates certain responsibilities to Board Committees and executive management. Details of the Board Committees and their activities during the year are set out at centrica.com/ar18

The Board delegates authority to the Group Chief Executive for the execution of strategy and the day-to-day management of the Group. The Board oversees, guides and challenges executive management in the execution of these activities.

The Board is supported in its role by Centrica's Governance Framework, which is set out on page 73. The five sub-committees of the Board provide detailed focus to different areas of the Board's work, with their specific responsibilities and authority set out in their Terms of Reference. The Board regularly reviews the remit, authority, composition and Terms of Reference of each Committee.

2016 UK Corporate Governance Code

Effective corporate governance provides an essential foundation for the long-term success of the Company. The Annual Report and Accounts 2018 sets out the key elements of Centrica's corporate governance arrangements, including how we have sought to apply the principles and provisions of the 2016 Code during the year. The Board confirms that, up to the date of the Annual Report and Accounts 2018, it fully complied with the 2016 Code.

The 2016 Code and associated guidance are available on the Financial Reporting Council website at frc.org.uk. The index in the Annual Report and Accounts 2018 sets out where to find each of the required disclosures in respect of Listing Rule 9.8.4 and Disclosure and Transparency Rules 4.1.5R and 7.2.1.

Culture and Values

The Board recognises the importance of its role in setting the tone of Centrica's culture and values. Our Code, which replaced Centrica's former Business Principles and codes of conduct, was launched globally on 31 January 2018. During the year, the Board had a number of opportunities to engage both formally and informally with colleagues from across the business enabling a better understanding of the extent to which Our Values – care, delivery, collaboration, agility and courage – have been embedded throughout the Group. Our Code along with Our Values underpin everything that we do.

Looking forward

The Board intends to maintain high standards of corporate governance across the Group and believes this is integral to the delivery of our strategy. The Board remains focused on creating sustainable long-term value for the benefit of our shareholders and stakeholders.

Board of Directors

 Full biographies can be found at centrica.com/board

C Chairman of the Board

DC Disclosure Committee

RC Remuneration Committee

Denotes Committee Chairman

AC Audit Committee

NC Nominations Committee

SC Safety, Health, Environment, Security & Ethics Committee



Rick Haythornthwaite



Iain Conn



Chris O'Shea

Rick Haythornthwaite Chairman

C NC

Rick joined the Board as a Non-Executive Director on 14 October 2013. He was appointed Chairman of the Board on 1 January 2014 and was Chairman of the Nominations Committee. He stepped down from the Board on 20 February 2019.

Skills and experience

Rick has a wealth of knowledge in the energy industry and has significant board experience, both as an executive and non-executive director. He led the rescue of Invensys from 2001 to 2005 and the defence, turnaround and subsequent sale of Blue Circle Industries from 1997 to 2001. He has served on the boards of Network Rail as chairman and Cookson, Lafarge, ICI and Land Securities as a non-executive director.

External appointments

Chairman of the board of MasterCard International, QIO Technologies and Arc International and an advisory partner at Moelis & Company.



Charles Berry



Margherita Della Valle



Joan Gillman



Richard Hookway



Stephen Hester



Mark Hodges

Iain Conn Group Chief Executive

DC

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

Skills and experience

Iain possesses a deep understanding of the energy sector built up over a lifetime in the industry and has demonstrated strong commitment to customers, safety and technology. Iain was previously BP's chief executive, downstream (BP's refining and marketing division) a position he held for seven years. Iain was a board member of BP for 10 years from 2004 and had previously held a number of senior roles throughout the organisation in trading, exploration and production and the management of corporate functions such as safety, marketing, technology and human resources.

External appointments

Non-executive director of BT Group plc.



Pam Kaur



Carlos Pascual



Steve Pusey



Scott Wheway

Chris O'Shea
Group Chief Financial Officer

DC

Chris was appointed Group Chief Financial Officer on 1 November 2018.

Skills and experience

Chris is an experienced listed company chief financial officer with considerable experience of complex, multi-national organisations, not only in the energy sector but also in technology-led engineering and services industries. Prior to joining Centrica, Chris was group chief financial officer of both Smiths Group plc and Vesuvius plc, and a non-executive director of Foseco India Ltd, an Indian-listed supplier to the foundry industry. From 2006 to 2012 Chris held various senior finance roles with BG Group plc, including chief financial officer of Europe and Central Asia, prior to which he held a number of senior roles with Royal Dutch Shell plc in the UK, the US and Nigeria, and with Ernst & Young.

External appointments

Chairman of the Tax Committee of the 100 Group of UK Finance Directors.

Charles Berry
Non-Executive Director

C NC

Charles joined the Board as a Non-Executive Director on 31 October 2018 and was appointed Chairman of the Board and Nominations Committee on 21 February 2019.

Skills and experience

Charles brings a wealth of international energy and engineering knowledge and a track record of successful leadership of businesses across the industrial, minerals, telecommunications and retail sectors. He also has extensive experience, in both the UK and US, of the regulatory framework of the energy and service markets. Charles is chairman of The Weir Group PLC. He previously held chairman roles at Senior plc, Drax Group plc, EAGA plc and Thus Group plc. Charles has also held executive roles at Scottish Power plc and Pilkington plc.

External appointments

Chairman of The Weir Group PLC and member of the steering group of the Hampton-Alexander Review.

Margherita Della Valle
Non-Executive Director

AC NC SC

Margherita joined the Board on 1 January 2011 and is Chairman of the Audit Committee. Margherita will step down from the Board on 12 May 2019.

Skills and experience

Margherita brings considerable corporate finance and accounting experience and she has a sound background in marketing. She was chief financial officer of Vodafone's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she worked for Omnitel Pronto Italia and held various consumer marketing positions in business analytics and customer base management before moving into finance.

External appointments

Group chief financial officer of Vodafone Group Plc and member of the VodafoneZiggo Board.

Joan Gillman
Non-Executive Director

NC SC

Joan joined the Board on 11 October 2016.

Skills and experience

Joan is a former executive vice president of Time Warner Cable, as well as chief operating officer, Time Warner Cable Media and president, Time Warner Cable Media LLC. Prior to its acquisition by Charter Communications, Time Warner Cable was the second-largest cable company in the United States, operating in 29 states and generating over \$23 billion in annual revenue. Joan led one of the company's three operating divisions, doubling revenues and overseeing the company's big data strategy.

External appointments

Director of Airgain, Inc., InterDigital, Inc. and Cumulus Media, Inc.

Richard Hookway
Chief Executive, Centrica Business

Richard was appointed Chief Executive, Centrica Business on 1 December 2018.

Skills and experience

Richard worked in the energy sector for 35 years at BP plc. His last role was serving as group chief operating officer for Global Business Services and IT. Prior to this Richard spent seven years as CFO for BP's Downstream division which includes customer-facing businesses, refining and marketing and the P&L for BP's oil trading activities. He previously held a number of senior commercial roles both in the UK and in North America including head of the Natural Gas Liquids business based in Houston and the Commercial and Industrial Marketing business for Europe. He also held positions in trading, exploration and production, petrochemicals and in group functions.

External appointments

Non-executive director of EDF Energy Nuclear Generation Group Limited (representing Centrica).

Stephen Hester
Senior Independent Director

AC NC RC

Stephen joined the Board on 1 June 2016 and is the Senior Independent Director.

Skills and experience

Stephen has wide-ranging experience, particularly in customer-facing businesses, together with recognised expertise in transforming business performance. He has a deep knowledge of operating within highly regulated businesses and over 30 years' experience in financial services and FTSE 100 companies. Stephen was previously chief executive officer of Royal Bank of Scotland Group plc where he led their largest-ever corporate restructuring and recovery programme.

External appointments

Group chief executive of RSA Insurance Group plc.

Mark Hodges Chief Executive, Centrica Consumer

Mark joined the Board on 1 June 2015 and will step down on 28 February 2019.

Skills and experience

Mark brings a strong understanding of the UK consumer market and a track record in improving business performance. He is experienced in working in a regulated environment, driving significant improvements in customer service and managing efficiency, 'offer innovation', major IT and change projects. Mark was group chief executive officer of Towergate Partnership. Prior to this he spent over 20 years with Norwich Union and Aviva plc in a variety of finance, planning and strategy roles. He was a member of Aviva's board and executive committee.

External appointments

Director of Energy UK (representing Centrica).

Pam Kaur Non-Executive Director

AC NC

Pam joined the Board on 1 February 2019.

Skills and experience

Pam has extensive experience in audit, business, compliance, finance and risk management, having previously held various senior roles at global financial institutions including Citigroup, Lloyds TSB, the Royal Bank of Scotland and Deutsche Bank, and has worked with regulators and supervisory boards across the world. Pam has an MBA in finance and a BCom (Hons) from Panjab University in India and is a qualified chartered accountant.

External appointments

A Group Managing Director and Group Head of Internal Audit at HSBC Holdings plc and Chair of the Financial Services Faculty Board.

Carlos Pascual Non-Executive Director

NC RC SC

Carlos joined the Board on 1 January 2015.

Skills and experience

Carlos has held a number of senior positions in the energy industry as well as being a prominent public figure in energy geopolitics and economic and commercial development. Between 2011 and 2014 Carlos established and directed the US State Department's Energy Resource Bureau. Until August 2014 Carlos was special envoy and coordinator for international energy affairs, acting as senior adviser to the US Secretary of State on energy issues. He has also served as US ambassador in Mexico and Ukraine.

External appointments

Non-resident senior fellow at the Centre on Global Energy Policy, Columbia University and senior vice president for global energy at IHS Markit.

Steve Pusey Non-Executive Director

AC NC SC

Steve joined the Board on 1 April 2015 and is Chairman of the Safety, Health, Environment, Security & Ethics Committee.

Skills and experience

Steve has a wealth of international experience as a senior customer-facing business technology leader. He has a long track record in the telecommunications industry, in both the wireline and wireless sectors, and in business applications and solutions. Steve has worked for Vodafone, Nortel and British Telecom and is a graduate of the Advanced Management Program at Harvard University.

External appointments

Non-executive director of FireEye, Inc.

Scott Wheway Non-Executive Director

NC RC SC

Scott joined the Board on 1 May 2016 and is Chairman of the Remuneration Committee.

Skills and experience

Scott is a senior business leader with a mix of deep retail and consumer expertise. He has considerable knowledge gained in both the retail and insurance sectors, together with a strong understanding of operating within highly regulated businesses. Scott worked in retail for almost 30 years both in the UK and internationally and has over 10 years' experience as a non-executive director within the financial services industry.

External appointments

Chairman of AXA UK plc and senior independent director of Santander UK plc.

2018 Board changes

Jeff Bell stepped down from the Board on 31 October 2018

Charles Berry joined the Board on 31 October 2018

Chris O'Shea joined the Board on 1 November 2018

Mark Hanafin stepped down from the Board on 30 November 2018

Richard Hookway joined the Board on 1 December 2018

2019 Board changes

Pam Kaur joined the Board on 1 February 2019

Rick Haythornthwaite stepped down from the Board on 20 February 2019

Mark Hodges will step down from the Board on 28 February 2019

Sarwjit Sambhi will join the Board on 1 March 2019

Margherita Della Valle will step down from the Board on 12 May 2019

Kevin O'Byrne will join the Board on 13 May 2019



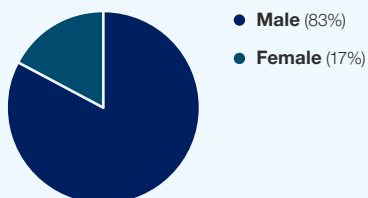
Read more about the
Board Changes at
centrica.com/ar18

The Board has agreed that each Director shall stand for reappointment at each Annual General Meeting (AGM). Copies of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

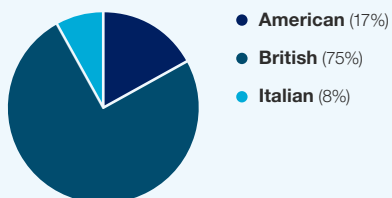
Board Composition

Board diversity

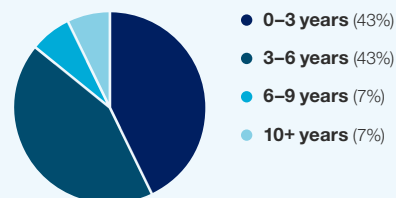
by gender



by nationality



by tenure



* Data as at 31 December 2018

Skills and experience

	Executive Directors				Non-Executive Directors			
Energy Sector								
Geopolitics								
Emerging Markets								
Financial Services								
Technology								
Engineering / Safety								
Consumer services								
Government / Regulatory								
Finance / M&A								

*data as at 31 December 2018

Board attendance

	Board ⁽¹⁾	Audit	Remuneration	Nominations	SHESEC	Joint Audit/ SHESEC	Disclosure
Number of meetings	11	4	8	11	5		
Rick Haythornthwaite	11/11	–	–	10/10 ⁽³⁾	–	–	–
Charles Berry	2/2	–	–	2/2	–	–	–
Iain Conn	11/11	–	–	–	–	–	10/10
Jeff Bell ⁽²⁾	8/9	–	–	–	–	–	7/9
Margherita Della Valle ⁽²⁾	7/11	4/4	5/6	6/11	3/5	2/2	–
Joan Gillman ⁽²⁾	11/11	–	–	10/11	5/5	2/2	–
Mark Hanafin	10/10	–	–	–	–	–	–
Stephen Hester	11/11	4/4	2/2	11/11	–	–	–
Mark Hodges ⁽²⁾	9/11	–	–	–	–	–	–
Richard Hookway	1/1	–	–	–	–	–	–
Chris O'Shea	2/2	–	–	–	–	–	1/1
Carlos Pascual ⁽²⁾	10/11	–	7/8	9/11	5/5	2/2	–
Steve Pusey ⁽²⁾	10/11	4/4	–	11/11	5/5	2/2	–
Scott Wheway ⁽²⁾	9/11	–	8/8	11/11	5/5	2/2	–
Grant Dawson	–	–	–	–	–	–	10/10

(1) During the year there were 11 Board meetings, of which nine were scheduled meetings and two were called at short notice.

(2) All absences were due to Directors' having unavoidable diary clashes.

(3) Rick Haythornthwaite did not attend the Nominations Committee meeting that discussed his successor.

Senior Executives



Full biographies can be found at
centrica.com/seniorexecutives



Charles Cameron

Charles Cameron **Director of Technology** **& Engineering and** **Centrica Innovations**

Charles was appointed Director of Technology & Engineering on 1 January 2016 and Chairman of Centrica Innovations on 1 May 2017.

Skills and experience

Charles has extensive technology and engineering experience and has held corporate roles in marketing, planning and M&A. Before joining Centrica, he was head of technology, downstream at BP plc and was a member of the downstream executive team.

Prior to his time at BP, Charles spent 23 years with the French Institute of Petroleum and their catalyst, technology licensing and engineering service business, Axens.



Grant Dawson

Grant Dawson **Group General Counsel** **& Company Secretary**

DC

Grant was appointed Group General Counsel & Company Secretary in February 1997 and will retire from the Company at the end of March 2019.

Skills and experience

Grant joined British Gas plc in October 1996 and has been Group General Counsel & Company Secretary of Centrica plc since the demerger of British Gas plc on 17 February 1997. He was called to the Bar in 1982 and has spent most of his career in industry, joining the legal department of Racal Electronics plc in 1984, then STC plc as legal adviser in 1986 until it was taken over in 1991 by Northern Telecom Limited. Between 1991 and 1996, he was the associate general counsel for Nortel in Europe, Africa and the Middle East.



Jill Shedden

Jill Shedden, MBE **Group Human Resources Director**

Jill was appointed Group Director, Human Resources on 1 July 2011.

Skills and experience

Jill joined British Gas plc as a graduate in 1988 and has since held a wide range of senior HR roles across the Group. Prior to her appointment as Group HR Director Jill was HR Director in British Gas Business, British Gas Energy and Centrica Energy. In 2017 Jill was awarded an MBE for 'services to women and equality' in recognition of her work with, amongst other organisations, the Women's Business Council.

External appointments

Non-executive director Thames Water Utilities Limited.



Mike Young

Mike Young **Group Chief Information Officer**

Mike was appointed Group Chief Information Officer on 1 November 2016.

Skills and experience

Mike brings a wide range of experience in managing global information systems functions in partnership with customer-facing units and using big data and digital technologies to drive revenue growth and improve the customer experience. Before joining Centrica he was group chief information officer with the media and digital marketing company Dentsu Aegis Network.

2019 Senior Executive changes

Grant Dawson will retire from the Company on 31 March 2019

Justine Campbell will become Group General Counsel & Company Secretary and member of the Disclosure Committee on 1 April 2019

Governance Framework

The Board

The Board is collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders, it provides leadership and direction including establishing the Group's culture, values and ethics, setting strategy and overseeing its implementation, ensuring only acceptable risks are taken and being responsible for corporate governance and the overall financial performance of the Group.

Matters reserved exclusively for the Board

There are certain key responsibilities that the Board does not delegate and which are reserved for its consideration. The full Schedule of Matters Reserved is available on our website, but key features include:

- the development of strategy and major policies;
- approving the annual operating plan, Financial Statements and major acquisitions and disposals;
- approving interim dividend payments and recommending final dividend payments; and
- the appointment and removal of Directors and the Company Secretary.



Read more about our Stakeholder Engagement on
Pages 52 to 55



Read more on how we manage our Risks on
Pages 41 to 51



Read more on Our Strategy and Our Business Model on
Pages 14 to 17

Board composition and roles

Chairman

Responsible for the leadership and management of the Board. In doing so, he is responsible for promoting high ethical standards, ensuring the effective contribution of all Directors and, with support from the Group General Counsel & Company Secretary, best practice in corporate governance.

Group Chief Executive

Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board.

Group Chief Financial Officer

Responsible for providing strategic financial leadership of the Company and day-to-day management of the finance function.

Independent Non-Executive Directors

Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure.

Senior Independent Director

Acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors, as well as shareholders as required.

Group Executive Directors

Responsible for executive leadership and day-to-day management of relevant business units in support of the Group Chief Executive and the delivery of the strategy agreed by the Board.

Company Secretary

Adviser to the Chairman and the Board on matters of corporate governance, induction, training and the efficient management of Board and Committee meetings. Responsible for ensuring the effectiveness of Centrica's governance framework.

Committees

Audit Committee



Read more at
centrica.com/ar18

Disclosure Committee



Read more at
centrica.com/ar18

Nominations Committee



Read more at
centrica.com/ar18

Remuneration Committee



For more information
Pages 78 to 82

Safety, Health, Environment, Security and Ethics Committee



Read more at
centrica.com/ar18



The role and responsibilities of each Committee are set out in its Terms of Reference found on the Company's website at
centrica.com/boardcommittees

Summary Directors' and Corporate Governance Report

Set out below is the summary of the Directors' and Corporate Governance Report from the Annual Report and Accounts 2018. The full Report can be found at centrica.com/ar18

Board meetings

The Board held 11 meetings in 2018, seven of which were in person and four by scheduled telephone conferences. Each year the Board seeks to combine one or two meetings with visits to the Group's operations and in 2018 visited North America Business in March and Bord Gáis Energy, Dublin, in September.

During the year, the Non-Executive Directors, including the Chairman, met frequently without management present.

Board activity

During the year, the Board considers a comprehensive programme of regular matters covering operational and financial performance reporting, strategic reviews and updates and various governance reports and approvals. In addition, each Board meeting features deep dives into a specific operation or topic.

In 2018, these discussions included:

- Strategic reviews for Connected Home; DE&P; EM&T; UKB; delivery services growth in UK and NA;
- Spirit Energy – Nova Field Development;
- Group Brand Architecture and Reputation;
- IT, Technology and Innovation;
- the Competitive Landscape;
- Exploration & Production portfolio and pipeline;

- North America Site Visit – review North America progress against risks / issues identified in Internal Audit;
- Board Evaluation;
- Process Safety;
- People, Culture and Capability;
- Governance, Risk & Regulation; and
- Financial and Operational Performance.

Board diversity

Centrica recognises the benefits of diversity and inclusion in all its forms, at Board level and throughout the Group.

As at 31 December 2018, 17% of the Board were women and comprised directors from the UK, US and Italy with a wide range of backgrounds and expertise. Following the appointment of Pam Kaur on 1 February 2019 and as at the date of this Report, the percentage of women on the Board has increased to 25%.

Centrica supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity and is continuing to develop the skills, experience and knowledge of a diverse talent pipeline. Our Nominations Committee is dedicated to ensuring and promoting a diverse blend of skills, backgrounds and nationalities on the Board and further details can be found at centrica.com/ar18

 [Read more about our employee diversity on](#)
Page 62



Our governance in action

Centrica's governance framework is designed to support timely, effective decision-making throughout the organisation.

The effectiveness and rigour of this system of governance is evident in the process the Board followed before approving Spirit Energy's acquisition of 50% of Hurricane Energy's Greater Warwick Area, part of the Rona Ridge fractured basin in the West of Shetland:

- strong and aligned leadership from the Chairman and the Group Chief Executive in convening meetings of the Board at short notice and facilitating open, yet focused, debate and appropriate challenge;
- flexibility and speed of decision-making with two additional and unscheduled Board meetings held on successive days and the transaction signed and completed within a month. This enabled Spirit Energy to acquire a rig, for the well programme, for site surveys to be undertaken and for long lead-time items to be procured in time for drilling to commence in the first quarter of 2019;
- a clear understanding of the strategic rationale for the proposed acquisition and of the risks associated with the project and an evaluation of alternative investment opportunities;
- rigorous challenge and independent oversight from the Non-Executive Directors who brought diverse experiences and an external perspective to the discussions and who constructively challenged the strategic rationale for the proposed investment; and
- timely, accurate and well-considered information and support from the Executive and the Group General Counsel & Company Secretary.

This transaction is expected to significantly strengthen Spirit Energy and will enable it to participate in the early phases of resource maturation in one of the last known world-class oil development opportunities in the UK.

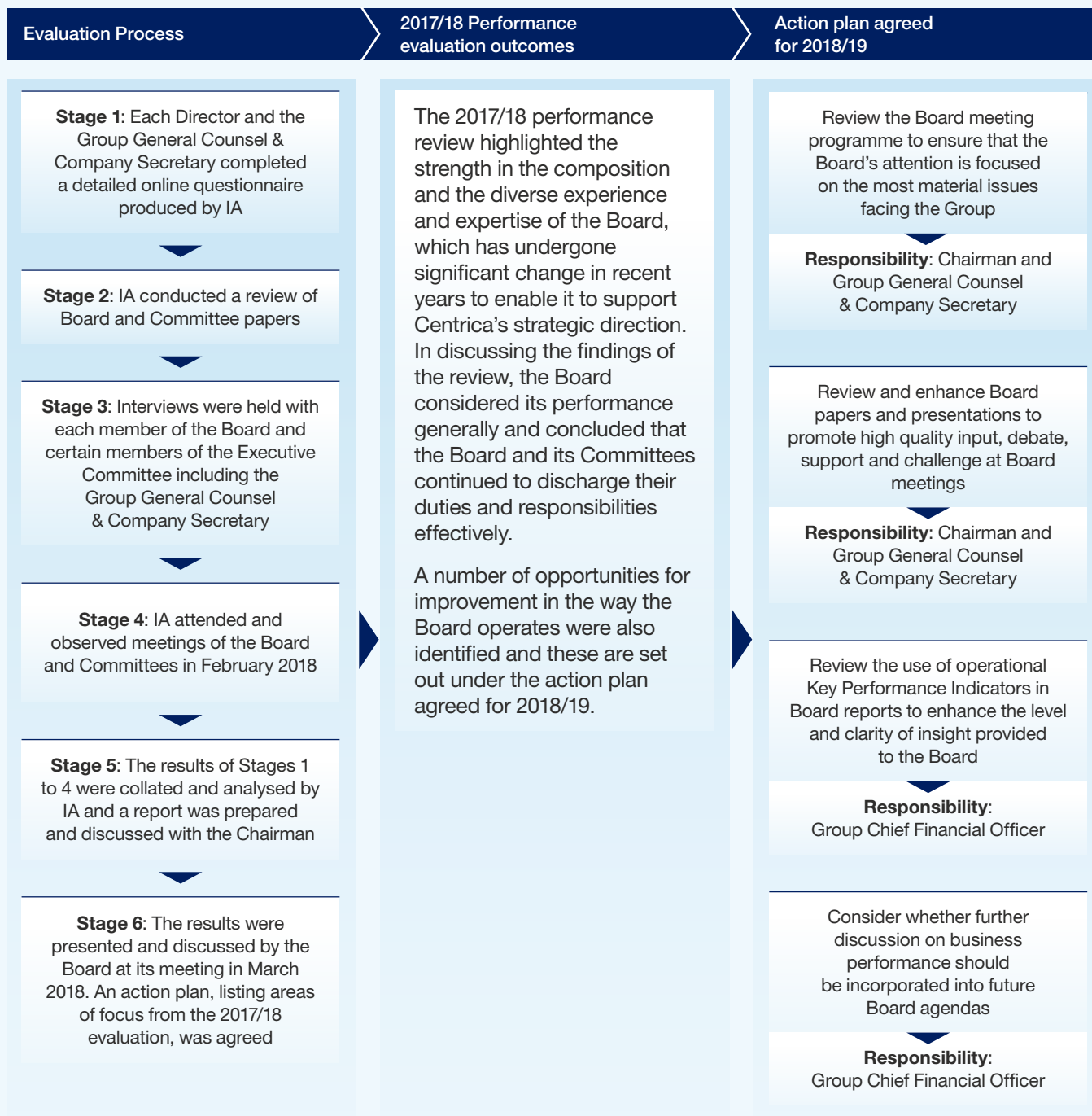
 [Read more about Drilling for the future West of Shetland on](#)
Page 34

Board Evaluation

Evaluation of the Board and its Committees

The Board recognises that it continually needs to monitor and improve its performance. The performance and effectiveness of the Board and its Committees is subject to formal review through the annual evaluation process. In accordance with the 2016 Code, Centrica's annual evaluation of Board effectiveness is facilitated by an independent third-party at least once every three years.

As we reported last year, for 2017/18 an independent third party evaluation was conducted by Independent Audit (IA). The process that was followed for this review and the conclusions of this evaluation, are set out below.



Chairman's performance

The Senior Independent Director, Stephen Hester, conducted the evaluation of the Chairman's performance through a series of individual discussions with Directors and Senior Executives. Stephen then discussed the feedback and areas of development with the Chairman.

Individual performance

The Chairman held performance meetings with each Director to discuss their individual contribution and performance over the year and their training and development needs. Following these meetings, the Chairman confirmed that each Director continued to make an effective contribution to the Board and the Company.

Workforce engagement

The Board recognises that the success of the long term strategy to transition the Company to customer-facing businesses depends on a fully engaged workforce and culture. As a critical step, the Board expanded its commitment to the employees by appointing a Non-Executive Director, Joan Gillman, to the role of Employee Champion. Joan brings to the role wide-ranging experience in leadership and operations in the media and communications sector and fully understands and supports the importance of engagement, teamwork and diversity.

In 2018, Joan undertook a review of key employee matters and during the year participated in Board visits and employee sessions in Dublin, England and the US, two dozen 1:1s, Yam Jam (a collaborative online employee communication tool) and listening sessions with employees. The following summary of key topics were discussed at length:

- how to define the Employee Champion role;
- what defines success;
- how employees can best share their ideas or feedback; and
- How the Company can maximise the voice of the employee to improve culture, communications, customer service.

The conversations have been very productive and further demonstrated the commitment of the employees to the success of their teams and the role they play in the success of the Company. Their voice is critical to our success. The high level of participation in the employee engagement survey in 2018 also demonstrates how eager the employees are to see Centrica succeed in serving our customers, operating in our communities and supporting our employees. In addition to participation, many of the measures in the survey show that areas of focus in 2018, including safety, values and communications, show improvement. The same survey has provided us the feedback to focus on areas for further improvement in the coming year. Last but not least, we are in the very early stages of defining the Employee Champion role. Employee engagement is improving however, this is a long term commitment to bring about positive results for the Board and employees. The success of the role will require an ongoing commitment and engagement from the employees, the executives and the Board to work constructively and collaboratively to shape a role that is both effective in the short-term and sustainable for the long-term.

“It’s an honour to be the Employee Champion for the Board. 2018 has been a year of defining this important role and setting out our ambitions. In doing so, I have thoroughly enjoyed spending time with employees across the Group. I am grateful for the insights in shaping the role of Employee Champion and the agenda and dialogue in the Board room.”

Joan Gillman
Non-Executive Director

Shareholder engagement

The Board is committed to maintaining open channels of communication with all of the Company’s stakeholders. An important part of this is providing a clear explanation of the Company’s strategy and objectives, and ensuring feedback is acknowledged, considered and, where appropriate, acted upon.

Meetings, roadshows and conferences

We typically offer meetings with senior management to our major institutional shareholders twice a year, following the Company’s Preliminary and Interim Results. These meetings are attended by the Group Chief Executive Officer and Group Chief Financial Officer, and also sometimes divisional Chief Executives, and are intended to ensure shareholders have the opportunity to hear directly from management on the Company’s performance and progress. In addition, senior management are also available to meet on an ad hoc basis with major shareholders if requested, while management and/or Investor Relations attend a number of investor conferences throughout the year, giving shareholders further opportunity to meet and get updates directly from Company representatives.

In April, our largest investors and leading proxy advisers were invited to attend the Chairman’s Governance meeting. This provided insight into the key focus areas and considerations of the Board and its committees and allowed a better understanding of the governance framework operating across the business. The Chairman, Senior Independent Director, Committee Chairmen, Group Chief Executive and Group Chief Financial Officer attended this meeting.

Engagement themes with our institutional shareholders

During the year, engagement themes included:

- The external political environment;
- North American accounting issues;
- Climate change;
- The Company’s share price and shareholder return;
- Customer service and customer retention; and
- Cyber security.

“By putting decentralisation, digitisation and decarbonisation at the core of its operations, Centrica is making a real difference in tackling climate change and empowering businesses to be more efficient and sustainable.”

Carlos Pascual
Non-Executive Director

Key investor relations activities during the year included

Q1 (Jan–Mar)	Q2 (Apr–June)	Q3 (Jul–Sep)	Q4 (Oct–Dec)
Preliminary results	Annual Report published	Half-yearly results	Trading update
Post-results investor meetings	Chairman's Governance Meeting	Post-results investor meetings	
	AGM		
	Trading update		
Meetings between the CEO and CFO and the Company's major shareholders			
Chairman and Senior Independent Director meet with major institutional shareholders			
Press releases available on Centrica.com			

Annual General Meeting (AGM)

Our AGM is attended by our Board and Executive Committee members and is open to all our shareholders to attend. A summary presentation of financial results is given before the Chairman deals with the formal business of the meeting. Shareholders present during the meeting can question the Board. Representatives from Investor Relations and customer services are available before and after the meeting to answer any additional questions that shareholders may have. Our 2018 AGM was very well supported, the level of support for the resolutions carried ranged from 89.35% to 99.92%.

The 2019 AGM will be held at the QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Monday 13 May 2019. Further information is available in the Notice of AGM (see centrica.com/agm19)

Reuniting our shareholders with unclaimed dividends

Since 2009, together with our Registrar, Equiniti, and its partner ProSearch, Centrica have run an asset reunification programme. This seeks to reunite shareholders with uncashed dividends and share entitlements. To date, we have successfully reunited £25.2 million of share and dividend assets with shareowners. The Company proposes to adopt new Articles at the 2019 AGM which will provide the Company with greater control and flexibility in relation to its treatment of untraced shareholders, the procedure for the payment of dividends and the holding of combined physical and electronic general meetings.

Share Dealing Programme

We continue to run our popular annual share-dealing programme for shareholders with shareholdings of up to 5,000 shares, giving them the option to sell or increase their shareholdings at a fixed fee. Shareholders who sold their shares had a further option to donate the proceeds to UK Charity ShareGift, resulting in over £325,000 being donated since 2010.

Centrica.com

Our website, centrica.com, contains up-to-date information for shareholders and other interested parties including annual reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.



Read more about Shareholder Information on
Page 86

Summary Remuneration Report

Set out below is the summary of the Remuneration Committee Chairman's annual statement and a summary of the Remuneration Report from the Annual Report and Accounts 2018. The full Report can be found at centrica.com/ar18



On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2018.

In May 2018, following an extensive consultation exercise, we asked shareholders to approve our revised Remuneration Policy (Policy) which we sought to ensure was more closely aligned to our strategy and the delivery of long-term shareholder value through returns and growth (see box below). We were pleased to receive the support of over 95% of our shareholders for our revised Policy.

This report describes how we have implemented this Policy in its first year of operation.

Principal changes to Remuneration Policy approved by shareholders in 2018

- Introduced Total Shareholder Return (TSR) into the Long term Incentive Plan (LTIP).
- LTIP therefore has four measures: 33% weighting to relative TSR and 22% weighting to each of economic profit, cash flow growth and non-financial KPIs.
- Increased the weighting of financial performance within the Annual Incentive Plan (AIP) and moved to 75% financial and 25% personal objectives.
- Increased the shareholding requirement for Executive Directors from 200% to 300% of salary, and introduced a post-cessation shareholding requirement.
- Simplified our bonus deferral to three-year cliff vesting (rather than phased vesting).
- Reduced the maximum pension salary supplement level for newly recruited Executive Directors to 25% of salary.

Joiners and leavers during the year

In operating our Policy during the year, we determined the remuneration arrangements for three new Executive Directors (Executives), two external appointments and one internal promotion, as well as agreeing arrangements for two departing Executives. These arrangements were disclosed at the time and are set out on page 99 of the Annual Report and Accounts 2018 and at centrica.com/ar18. In all cases the standard provisions of our Policy applied, taking into account the individual circumstances of each case. The Committee considered the fixed elements of remuneration carefully and in particular, offered pension contributions for all three Executives below the newly established Policy maximum level.

Responding to the Corporate Governance Code

The Committee carefully considered the requirements relating to remuneration committees in the revised Code, which applies from 1 January 2019, and the Committee's Terms of Reference were reviewed and updated. During the year we discussed how we would ensure the Committee better understands remuneration arrangements and related policies applying across the wider workforce and that these are taken into consideration when setting and agreeing executive remuneration. To enable employee views to be taken into account in Committee discussions and decision-making, we have invited Joan Gillman to participate in discussions in her capacity as employee champion for the Board.

In addition, and in response to investor guidance, we disclose our CEO pay ratio below, a year ahead of the statutory requirement.

CEO pay ratio

The Company has used its gender pay gap data (Option B in the Directors' Reporting Regulations) to determine the employees whose remuneration packages sit at the lower, median and upper quartile positions across the UK workforce. We have calculated the annual remuneration relating to 2018 for the three identified employees on the same basis as the CEO's total remuneration for 2018 in the single figure table, to produce the ratios below:

Quartile position	Employee job profile	Total remuneration	CEO pay ratio
Lower	Smart Energy Expert	£33,718	72:1
Median	Servicing Engineer	£41,239	59:1
Upper	Technical Engineer	£55,107	44:1

In future years the ratio will be disclosed in a table in the remuneration report, building incrementally to show the ratios over a 10-year period.

Remuneration outcomes for the year

Overall, this has been another challenging year, with volatile commodity prices, strong competitive pressures and significant political and regulatory intervention in our markets. The Committee has been impressed by the resilience of the leadership team which has pulled together strongly to deliver against a wide range of targets. In respect of financial performance, the AIP adjusted operating profit (AOP) target, which had a 40% weighting, was not achieved. However, with strong cost efficiency delivery above the maximum performance level (20% weighting) and capital discipline, the cash flow target (40% weighting) was marginally exceeded. On balance the Committee felt that the formulaic outcome against the financial performance targets set was a fair reflection of performance and was satisfied that the resulting 60.5% of salary was an appropriate outcome.

The Committee has considered the individual performance of the Executives and a summary of the assessment for each individual is set out on pages 95 to 96 of the Annual Report and Accounts 2018 and at centrica.com/ar18. Total AIP awards were therefore in the range of 80% to 82% of salary, compared to a target and maximum of 100% and 200% respectively.

The Committee also assessed the vesting outcome for long-term incentive awards that were made in early 2016. The LTIP awards were dependent on adjusted earnings per share (EPS), economic profit (EP), safety performance, employee engagement and customer service delivery as assessed by net promoter scores. Based on performance against these metrics over the three years the LTIP will vest at a level of 18% of the award. The value of the shares initially granted under the 2016 award has fallen and as such represents an outcome of approximately 41% of salary.

A summary of the short and long-term outcomes is presented in the charts over the following two pages.

Application of Policy for 2019

During October and November 2018, a pension benefit consultation took place across the membership of the Group's UK defined benefit plans. Once the outcome of the consultation became clear, which would see future benefit accrual reduce in response to rising costs and competitive pressure, the Committee discussed and agreed with a proposal from the leadership team that pension contributions for existing Executives and other members of senior management would reduce to a maximum of 15% with effect from 1 June 2019. This represents reductions of between one half and one quarter in the pension benefit for affected Executives and represents appropriate alignment with the wider workforce.

In 2019, only Iain Conn will receive a salary increase, of 1.9%, being below the average level of salary increases across the UK workforce. The other Executives are either new in position or are leaving during the year.

The Committee has reviewed the bonus measures and weightings to apply for 2019, in line with the Group Annual Plan, and no change is proposed.

LTIP measures will also remain unchanged for 2019 awards, with targets set to align with realistic but stretching outcomes for the business. Further detail on incentive measures and targets can be found on page 103 of the Annual Report and Accounts 2018 and at centrica.com/ar18.⁽¹⁾

Conclusion

The Committee continues to take a disciplined approach to executive remuneration that seeks to ensure Executives are appropriately rewarded while ensuring alignment with the shareholder experience and execution of strategy. The Committee believes that the decisions made over the year achieve this aim and align pay and performance effectively. The Committee is dedicated to an open and transparent dialogue with our investors and therefore I welcome views on any part of our remuneration arrangements.

Scott Wheway

Non-Executive Director

(1) Confirmation of the 2019 LTIP grant level will be provided in our announcement, which will be available on the London Stock Exchange shortly after the grant on 1st April 2019.

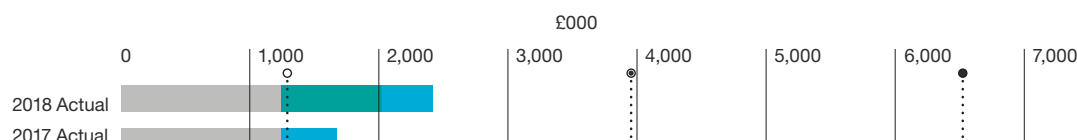
Remuneration Summary for 2018

Total remuneration received in 2018 (£000)⁽¹⁾

Iain Conn

£2,416

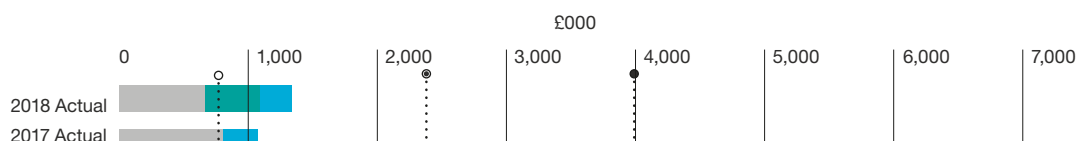
2017: £1,678



Jeff Bell

£1,241

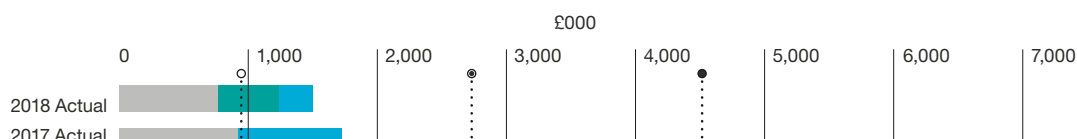
2017: £994



Mark Hanafin

£1,501

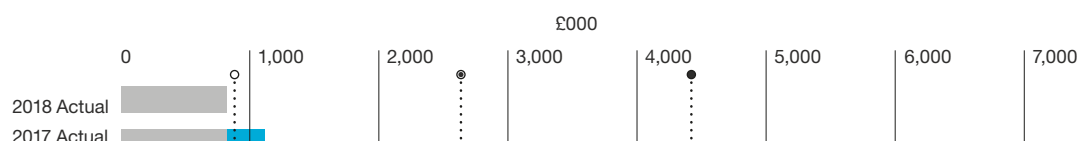
2017: £1,726



Mark Hodges⁽²⁾

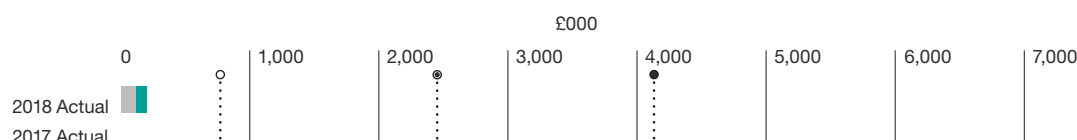
£822

2017: £1,119



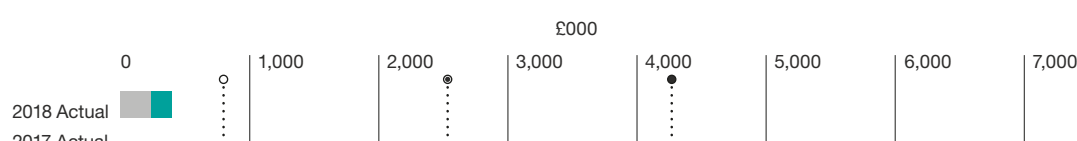
Richard Hookway

£206



Chris O'Shea

£394



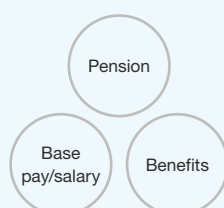
■ Fixed remuneration
■ Short-term incentive
■ Long-term incentive

●●● Maximum total pay
●●● On-target total pay
○●● Minimum total pay

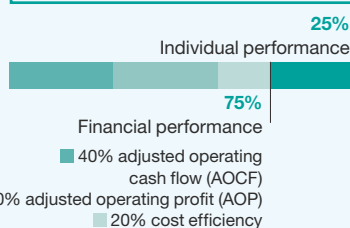
(1) Prepared on the same basis as the single figure for total remuneration table set out on page 82.
(2) As Mark Hodges is leaving the Company on 28 February 2019 his AIP and LTIP awards have been forfeited in full.

Components of remuneration package earned/vested in 2018

Fixed remuneration

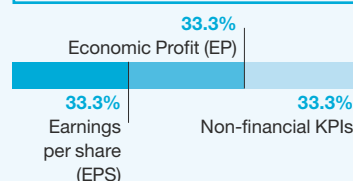


Short-term incentive



50% of award deferred into shares for three years

Long-term incentive

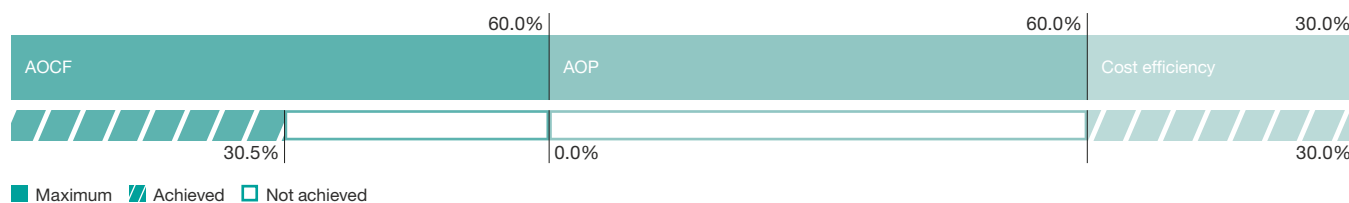


Three-year performance period followed by two-year holding period

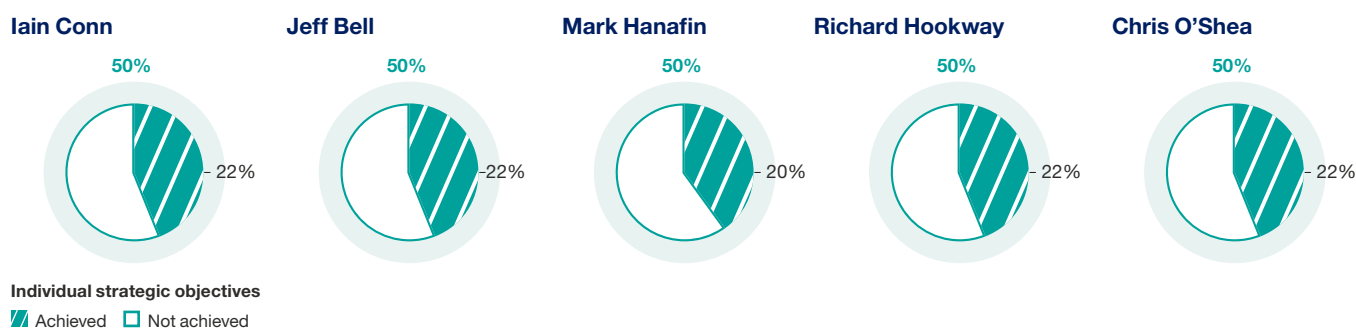
Malus and clawback

Short-term incentive outcome (Annual Incentive Plan)

Financial performance



Individual performance

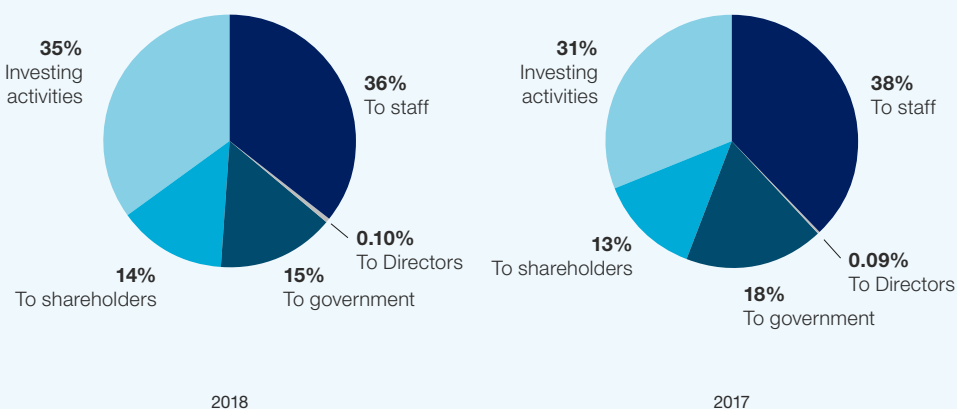


Long-term incentive outcome (Long Term Incentive Plan)



2018 cash flow distribution to stakeholders

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart, the Directors' aggregate total remuneration for the year equates to 0.10% (2017: 0.09%) of the Group's operating cash flow.



Directors' Annual Remuneration Report

Directors' remuneration in 2018

This report sets out information on the remuneration of the Directors for the financial year ended 31 December 2018.

Single figure for total remuneration (audited)

£000	Salary/fees		Bonus (cash)		Bonus (deferred)		Benefits ⁽¹⁾		LTIPs		Pension ⁽⁴⁾⁽⁵⁾		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018 ⁽²⁾	2017 ⁽³⁾	2018	2017	2018	2017 ⁽³⁾
Executives														
Iain Conn	940	936	388	–	388	–	31	30	387	431	282	281	2,416	1,678
Jeff Bell ⁽⁶⁾	479	569	198	–	198	–	35	27	230	252	101	146	1,241	994
Mark Hanafin ⁽⁶⁾	584	634	235	–	235	–	23	25	261	805	163	262	1,501	1,726
Mark Hodges ⁽⁷⁾	638	634	–	–	–	–	25	34	–	292	159	159	822	1,119
Richard Hookway ⁽⁸⁾	100	–	41	–	41	–	4	–	–	–	20	–	206	–
Chris O'Shea ⁽⁹⁾	191	–	79	–	79	–	7	–	–	–	38	–	394	–
Total													6,580	5,517

- (1) Taxable benefits include car allowance, health and medical benefits and financial planning advice. Non-taxable benefits include matching shares received under the Share Incentive Plan (SIP). Both taxable and non-taxable benefits are included in the table.
- (2) LTIPs include the estimated value of the LTIP awards granted in 2016 and due to vest in April 2019, relating to the three-year performance period ending in 2018. Details of the performance outcomes are set out on pages 97 to 98 of the Annual Report and Accounts 2018 and at centrica.com/ar18. The estimated value of dividend equivalent shares has been included and the share price used to value the awards is 143.39 pence (the average share price from 1 October to 31 December 2018).
- (3) The values of the LTIP awards vesting in April, May and August 2018 have been recalculated based on the share price on the dates of vest which were 139.57, 153.63 and 146.70 pence respectively. The previous disclosure in the 2017 single figure table used an estimated share price. Iain Conn, Jeff Bell, Mark Hanafin and Mark Hodges' total remuneration for 2017 has therefore been restated to include the amended value of these awards.
- (4) Notional contributions to the Centrica Unapproved Pension Scheme defined contribution section (CUPS DC) for Jeff Bell, Mark Hanafin, Richard Hookway and Chris O'Shea have been included in this table as if CUPS DC was a cash balance scheme. This includes a deduction in respect of an allowance for CPI inflation on the opening balances of 3.0% in 2018 (0.9% in 2017). The 2017 pension benefit for Jeff Bell has been restated due to a minor reporting error in the 2017 disclosure.
- (5) Iain Conn and Mark Hodges were entitled to receive a salary supplement of 30% and 25% of base salary respectively in 2018.
- (6) Jeff Bell stepped down from the Board on 31 October 2018 and Mark Hanafin stepped down from the Board on 30 November 2018. The remuneration in this table includes their prorated salary, bonus, benefits and pension benefits earned up to the date they stepped down. The remuneration for the remainder of the year, whilst they were working their remaining notice periods, has been disclosed in the payments for loss of office disclosure on page 94 of the Annual Report and Accounts 2018 and at centrica.com/ar18. The full estimated value of the LTIP awards granted in 2016 and due to vest in April 2019 has been included in the single figure table above.
- (7) As Mark Hodges had tendered his resignation and agreed a leaving date of 28 February 2019, his AIP award relating to the 2018 year, and all unvested LTIP awards as at his date of leaving, were forfeited.
- (8) Richard Hookway joined Centrica on 1 November and was appointed to the Board on 1 December 2018. The remuneration in this table relates to the period from 1 November to 31 December 2018.
- (9) Chris O'Shea joined Centrica on 10 September and was appointed to the Board on 1 November 2018. The remuneration in this table relates to the period from 10 September to 31 December 2018.

Single figure for total remuneration (audited)

£000	Salary/fees		Bonus (cash)		Bonus (deferred)		Benefits		LTIPs		Pension		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Non-Executives														
Rick Haythornthwaite	495	495	–	–	–	–	–	–	–	–	–	–	495	495
Charles Berry ⁽¹⁾	12	–	–	–	–	–	–	–	–	–	–	–	12	–
Margherita Della Valle	98	98	–	–	–	–	–	–	–	–	–	–	98	98
Joan Gillman	73	73	–	–	–	–	–	–	–	–	–	–	73	73
Stephen Hester	93	93	–	–	–	–	–	–	–	–	–	–	93	93
Lesley Knox ⁽²⁾	–	80	–	–	–	–	–	–	–	–	–	–	–	80
Carlos Pascual	73	73	–	–	–	–	–	–	–	–	–	–	73	73
Steve Pusey	93	93	–	–	–	–	–	–	–	–	–	–	93	93
Scott Wheway	93	85	–	–	–	–	–	–	–	–	–	–	93	85
Total													1,030	1,090

- (1) Charles Berry was appointed as a Non-Executive Director on 31 October 2018.
- (2) Lesley Knox resigned as a Non-Executive Director on 31 December 2017.

Independent Auditor's Statement

to the members of Centrica plc

We have examined:

- the summary financial statements contained within the Annual Review for the year ended 31 December 2018 which comprise the Summary Group Income Statement, the Summary Group Balance Sheet, the Summary Group Statement of Changes in Equity, the Summary Group Cash Flow Statement; and
- the table of the single total figure for directors' remuneration contained within the Summary Remuneration Report.

This report is made solely to the Company's members, as a body, in accordance with the terms of our letter of engagement with the company dated 19 February 2019. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the Annual Review (which includes the summary financial statements) and the supplementary material which includes the table of the single total figure for directors' remuneration in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statements contained within the Annual Review with the full annual financial statements and our opinion on the consistency of the table of the single total figure for directors' remuneration contained within the summary Remuneration Report with that table in the Directors' Remuneration Report.

We also read the other information contained in the Annual Review and the supplementary material as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Company's full annual financial statements describes the basis of our audit opinion on those financial statements, the Directors' Remuneration Report, the Strategic Report and the Directors' Report.

Opinion

In our opinion, the summary financial statements contained within the Annual Review are consistent with the full annual financial statements for the year ended 31 December 2018 and the table of the single total figure for directors' remuneration contained within the Summary Remuneration Report is consistent with that table in the full Directors' Remuneration Report.

Deloitte LLP

Statutory Auditor
London, United Kingdom
20 February 2019

Summary Financial Statements

Set out below is a summary of the Financial Statements from the Annual Report and Accounts 2018. The full report can be found at centrica.com/ar18

Summary Group Income Statement

Year ended 31 December	2018			2017 (restated) (i) (ii)		
	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Group revenue	29,686	–	29,686	28,035	–	28,035
Cost of sales before exceptional items and certain re-measurements	(25,433)	–	(25,433)	(23,998)	–	(23,998)
Re-measurement of certain energy contracts	–	(200)	(200)	–	153	153
Gross profit/loss	4,253	(200)	4,053	4,037	153	4,190
Operating costs before exceptional items and credit losses on financial assets	(2,721)	–	(2,721)	(2,716)	–	(2,716)
Credit losses on financial assets (iii)	(143)	–	(143)	(132)	–	(132)
Exceptional items – net write-back/(impairment) of Exploration & Production assets	–	90	90	–	(678)	(678)
Exceptional items – net loss on disposal (iii)	–	–	–	–	(62)	(62)
Exceptional items – restructuring and business change costs	–	(170)	(170)	–	(144)	(144)
Exceptional items – other	–	(103)	(103)	–	–	–
Share of profits/(losses) of joint ventures and associates, net of interest and taxation	3	(22)	(19)	51	(28)	23
Group operating profit/(loss)	1,392	(405)	987	1,240	(759)	481
Net finance cost	(273)	(139)	(412)	(344)	–	(344)
Profit/(loss) before taxation	1,119	(544)	575	896	(759)	137
Taxation on profit/(loss)	(461)	128	(333)	(191)	352	161
Profit/(loss) for the year	658	(416)	242	705	(407)	298
Attributable to:						
Owners of the parent	631	(448)	183	693	(365)	328
Non-controlling interests	27	32	59	12	(42)	(30)
Earnings per ordinary share			Pence			Pence
Basic			3.3			5.9
Diluted			3.2			5.9
Interim dividend paid per ordinary share			3.60			3.60
Final dividend proposed per ordinary share			8.40			8.40

Year ended 31 December	2018 £000	2017 (restated) (iv) £000
	£000	£000
Directors' remuneration	7,610	6,607

(i) Prior year results have been restated on transition to IFRS 15: 'Revenue from contracts with customers'.

(ii) Credit losses on financial assets are now disclosed separately in accordance with IAS 1: 'Presentation of financial statements'.

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

(iv) 2017 comparatives for Directors' remuneration have been restated. Further detail is provided in the Summary Remuneration Report on page 82.

Summary Group Balance Sheet

	31 December 2018 £m	31 December 2017 (restated) (i) £m
Non-current assets	11,891	11,516
Current assets	8,666	9,163
Current liabilities	(8,382)	(7,458)
Non-current liabilities	(8,227)	(9,789)
Net assets	3,948	3,432
Total shareholders' equity	3,145	2,703
Non-controlling interests	803	729
Total shareholders' equity and non-controlling interests	3,948	3,432

(i) Comparatives have been restated on transition to IFRS 15: 'Revenue from contracts with customers'.

Summary Group Statement of Changes in Equity

	2018 £m	2017 (restated) (i) £m
1 January ⁽ⁱ⁾	3,432	2,853
Profit for the year attributable to owners of the parent ⁽ⁱ⁾	183	328
Other comprehensive income attributable to owners of the parent	770	104
Employee share schemes	30	35
Transfers to assets and liabilities from cash flow hedging reserve ⁽ⁱ⁾	(1)	–
Dividends (net of scrip dividends)	(548)	(463)
Acquisition of business	8	24
Non-controlling interests	74	551
31 December⁽ⁱ⁾	3,948	3,432

(i) The Group adopted IFRS 15: 'Revenue from contracts with customers' on 1 January 2018. The standard was applied retrospectively, resulting in restatements of equity at 1 January 2017 and 31 December 2017, and of the profit for the year ended 31 December 2017.

(ii) Under IFRS 9: 'Financial instruments', cash flow hedging gains and losses transferred to assets and liabilities are no longer presented as an item in other comprehensive income and are now recognised directly in equity.

Summary Group Cash Flow Statement

Year ended 31 December	2018 £m	2017 £m
Cash generated from operations	2,243	2,118
Taxation and other operating cash flows	(309)	(278)
Net cash flow from operating activities	1,934	1,840
Net cash flow from investing activities	(1,007)	32
Net cash flow from financing activities	(2,540)	(1,070)
Net (decrease)/increase in cash and cash equivalents	(1,613)	802
Cash and cash equivalents including overdrafts at 1 January	2,737	1,960
Effect of foreign exchange rate changes	4	(25)
Cash and cash equivalents including overdrafts at 31 December	1,128	2,737

The Summary Financial Statements on pages 84 to 85 were approved and authorised for issue by the Board of Directors on 20 February 2019 and were signed below on its behalf by:

Iain Conn
Group Chief Executive

Chris O'Shea
Group Chief Financial Officer

Shareholder Information

General enquiries

Centrica's share register is administered and maintained by Equiniti, our Registrar, whom you can contact directly if you have any questions about your shareholding which are not answered here or on our website. You can contact Equiniti using the following details:

Address: Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex BN99 6DA United Kingdom

Telephone: 0371 384 2985*

Outside the UK: +44 (0)121 415 7061

Textphone: 0371 384 2255*

Outside the UK: +44 (0)121 415 7028

Contact: help.shareview.co.uk

Website: equiniti.com

* Calls to an 03 number cost no more than a national rate call to an 01 or 02 number. Lines open 8.30 am to 5.30 pm, Monday to Friday (UK time), excluding public holidays in England and Wales.

When contacting Equiniti or registering via shareview.co.uk, you should have your shareholder reference number at hand. This can be found on your share certificate, dividend confirmation or any other correspondence you have received from Equiniti.

If you hold less than 2,500 shares you will be able to change your registered address or set up a dividend mandate instruction over the phone, however, for security reasons, if you hold more than 2,500 shares, you will need to put this in writing to Equiniti.

Together with Equiniti, we have introduced an electronic queries service to enable our shareholders to manage their investment at a convenient time. Details of this service can be found at shareview.co.uk

American Depositary Receipt (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four ordinary shares. Further information is available on our website or please contact:

Address: BNY Mellon Shareowner Services, PO Box 505000,
Louisville, KY 40233-5000, USA

Email: shrrelations@cpshareownerservices.com

Website: mybnymdr.com

Telephone: +1 888 269 2377 (toll-free in the US)

Outside the US: +1 201 680 6825

Manage your shares online

We actively encourage our shareholders to receive communications via email and view documents electronically via our website, centrica.com. Receiving communications and Company documents electronically saves your Company money and reduces our environmental impact. If you sign up for electronic communications, you will receive an email to notify you that new shareholder documents are available to view online, including the Annual Report and Accounts and Annual Review, on the day they are published. You will also receive alerts to let you know that you can cast your Annual General Meeting (AGM) vote online. You can manage your shareholding online by registering at shareview.co.uk, a free online platform provided by Equiniti, which allows you to:

- view information about your shareholding;
- have your dividend paid into your bank account;
- update your personal details; and
- appoint a proxy for the AGM.

Centrica FlexiShare

FlexiShare is an easy way to hold Centrica shares without a share certificate. Your shares are held by a nominee company, Equiniti Financial Services Limited. However, you are able to attend and vote at general meetings as if the shares were held in your own name. Holding your shares in this way is free and gives you:

- low cost share dealing rates (full details of which are available on centrica.com, together with dealing charges);
- quicker settlement periods for buying and selling shares; and
- no paper share certificates to lose.

Centrica.com

The Shareholder Centre on our website contains a wide range of information including a dedicated investors section where you can find further information about shareholder services including:

- share price information;
- dividend history;
- ownership profile;
- the Scrip Dividend Programme;
- telephone and internet share dealing;
- downloadable shareholder forms; and
- taxation.

The Annual Report and Accounts 2018 can also be viewed online by visiting centrica.com/ar18

Dividends

Centrica dividends can be paid directly into your bank or building society account instead of being despatched to you by cheque. More information about the benefits of having dividends paid directly into your bank or building society account, and the mandate form to set this up, can be found in the Investors section of our website.

If you do not have a UK bank or building society account, Equiniti is able to pay dividends in local currencies in over 90 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

ShareGift

If you have a small number of shares and the dealing costs or the minimum fee make it uneconomical to sell them, it is possible to donate them to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be found at sharegift.org or by calling +44 (0)20 7930 3737.

2019 calendar

9 May 2019	Ex-dividend date for 2018 final dividend
10 May 2019	Record date for 2018 final dividend
13 May 2019	Trading Update AGM
15 May 2019	Scrip reference share price set
6 June 2019	Deadline for the receipt of scrip election forms from shareholders
27 June 2019	Payment date for 2018 final dividend
30 July 2019	Half-year results announcement
10 October 2019	Ex-dividend date for 2019 interim dividend
11 October 2019	Record date for 2019 interim dividend
16 October 2019	Scrip reference share price set
31 October 2019	Deadline for the receipt of scrip election forms from shareholders
21 November 2019	Payment date for 2019 interim dividend

Glossary

\$	Refers to US dollars unless specified otherwise
2P reserves	Proven and probable reserves
AIP	Annual Incentive Plan
AOCF	Adjusted operating cash flow
bcf	Billion cubic feet
CCGT	Combined cycle gas turbine
CHP	Combined heat and power
CO ₂ e	Universal unit of measurement of the global warming potential (GWP) of greenhouse gases (GHG) expressed in terms of the GWP of one unit of CO ₂ e (carbon dioxide equivalent)
CPI	Consumer Price Index
CSS	Consolidated Segmental Statement
CUPS DB	Centrica Unfunded Pension Scheme defined benefit
CUPS DC	Centrica Unfunded Pension Scheme defined contribution
Data analytics	The process of examining data sets to draw conclusions and insights about the information they contain
DEEPAC	Direct Energy Employee Political Action Committee
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBT	Employee Benefit Trust
EP	Economic profit
EPS	Earnings per share
EU ETS	European Union Emissions Trading Scheme
FCA	Financial Conduct Authority
FRS	Financial Reporting Standards
gCO ₂ /kWh	Grammes of carbon dioxide per kilowatt hour
GDPR	General Data Protection Regulation
GWh	Gigawatt hours
HVAC	Heating, ventilation and air conditioning
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFTTT	If This Then That – Software platform that connects apps, devices and services from different developers in order to trigger automations
KPI	Key performance indicators
kWh	Kilowatt hour
LNG	Liquefied natural gas
LTIFR	Lost time injury frequency rate

Machine learning	Artificial intelligence (AI) that provides computers with the ability to learn, without being programmed
mmboe	Million barrels of oil equivalent
mmth	Million therms
nm	Not measured
NPS	Net promoter score
PAC	Political Action Committee
PPA	Power purchase agreement
PP&E	Property, plant and equipment
ppt	Percentage point
PRA	Prudential Regulation Authority
Process safety	Process safety is concerned with the prevention of harm to people and the environment, or asset damage from major incidents such as fires, explosions and accidental releases of hazardous substances
PRT	Petroleum Revenue Tax
PWR	Pressurised water reactor
RBD	Reconciliation by difference
ROACE	Return on average capital employed
ROC	Renewable Obligation Certificate
RPI	Retail Price Index
RRJ	Risk Requiring Judgement
RRS	Risk Requiring Standards
SBR	Supplementary Balancing Reserve
SBU	Standard bundled unit
SHESEC	Safety, Health, Environment, Security and Ethics Committee
STOR	Short Term Operating Reserve
SVT	Standard variable tariff
tCO ₂ e	Tonnes of carbon dioxide equivalent
TRIFR	Total Recordable Injury Frequency Rate
TSR	Total shareholder return
TWh	Terawatt hour
VAT	Value added tax
VIU	Value in use
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute



Designed by **SALTERBAXTER MSL**

This report is printed on recycled silk papers made from 100% pre and post-consumer waste. The paper mills are based in the European Union and manufacture papers independently audited and certified by the Forest Stewardship Council® (FSC®) and accredited to the Environmental Management System 14001.

Printed by CPI Colour Limited ISO14001, FSC® certified and CarbonNeutral®.

Disclaimer

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

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

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



CENTRICA PLC

centrica.com

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Company registered
in England and Wales
No. 3033654